Neuren Pharmaceuticals Limited

Financial Report and Directors' Report for the year ended 31 December 2016

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
During 2016 Neuren made important progress on the development of its lead drug trofinetide candidate.

Neuren commenced a Phase 2 clinical trial of trofinetide in subjects aged 5 to 15 with Rett syndrome in April 2016 and completed the trial in January 2017. Top-line results from the trial were announced on 22 March 2017. The trial was a double-blind, randomized, placebo controlled study that tested three doses of trofinetide compared with placebo in 82 subjects. 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. This suggests that further benefit may be achieved with longer treatment duration. The 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 April 2016, Neuren announced top-line results from its Phase 2 clinical trial of trofinetide in moderate to severe traumatic brain injury (TBI). The trial (known as "INTREPID") was conducted in collaboration with the U.S. Army Medical Research and Materiel Command. The safety results, which was the primary endpoint of the trial, identified no treatment-related or dose-dependent trends in adverse events or laboratory results. Statistically significant (p=0.008) and clinically relevant benefit of active over placebo was demonstrated in patients with severe TBI who completed the Repeatable Battery for the Assessment of Neuropsychological Status (RBANS), which is a validated series of tests completed by the patient for assessing cognitive impairment that is commonly used in the diagnosis and tracking of dementia. RBANS has also been validated for use in moderate-to-severe TBI. The trial did not demonstrate a difference between drug and placebo in 3 core efficacy measures, which were the Extended Glasgow Outcome Scale (GOS-E), the Mayo-Portland Adaptability Inventory (MPAI-4) and mortality.

Neuren and its clinical expert advisors met with the US Food and Drug Administration (FDA) Division of Psychiatric Products in order to discuss plans for the development of trofinetide in Fragile X syndrome. During the meeting it was recognised that the broad mechanisms of action of trofinetide make it appropriate to use a novel approach to the assessment of Fragile X patients. It was agreed that Neuren would work with the FDA to refine and validate a Fragile X Syndrome Rating Scale. The FDA also requested that, before commencing clinical trials in paediatric patients, Neuren provide data from the non-clinical toxicity studies that were in progress.

The detailed financial statements are presented on pages 5 to 22. All amounts in the Financial Statements are shown in Australian dollars unless otherwise stated.

The Group's loss after tax attributable to equity holders of the Company for the year ended 31 December 2016 was $12,014,000 (2015: $13,397,000). 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 Fragile X syndrome clinical trial in December 2015;
  - the completion of Traumatic Brain Injury clinical trials in April 2016;
  - 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 were included in Operating Revenue; and
- A decrease of $0.4 million in grant revenue, which comprised funding of $1.3 million in 2016 from Rettsyndrome.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 1,783,503,420 (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, mainly due to the lower payments to R&D suppliers, partly offset by lower cash receipts

from grants. Financing 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.

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 ten 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.

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.

Mr Bruce Hancox, BCom (Non-Executive Director)

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.

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.

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 2016 are as follows:

Dr Richard Treagus

On 13 and 16 May 2016, Dr Treagus purchased 500,000 shares at $0.07 per share. On 31 August 2016, 9,615,385 shares were issued to Dr Treagus following the exercise of Equity Performance Rights.

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.

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 or written back on the lapse of unvested share options.

Remuneration of Directors	Remuneration 2016 $'000	Share based payments 2016 $'000	Remuneration 2015 $'000	Share based payments 2015 $'000
Dr Richard Treagus	341	144	360	475
Mr Larry Glass	420	-	479	-
Mr Bruce Hancox	33	-	50	-
Dr Trevor Scott	40	-	60	-

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

	2016 $'000	2015 $'000
$90,000 - $99,999	-	1
$100,000 - $109,999	-	1
$140,000 - $149,999	-	1
$150,000 - $159,999	2	-
$240,000 - $249,999	1	1
$250,000 - $259,999	1	-
$270,000 - $279,999	1	2

Including shared based payments

	2016 $'000	2015 $'000
$90,000 - $99,999	-	1
$100,000 - $109,999	-	1
$140,000 - $149,999	-	1
$150,000 - $159,999	2	-
$380,000 - $389,999	1	-
$390,000 - $399,999	-	1
$530,000 - $539,999	1	-
$560,000 - $569,999	-	1
$570,000 - $579,999	1	1

Donations
The Company made donations of $331 during the year (2015: nil).

Auditors
PricewaterhouseCoopers are the auditors of the Company. Audit fees in relation to the annual and interim financial statements were $49,954 (2015: $52,310). PricewaterhouseCoopers did not receive any fees in relation to other financial advice and services (2015: Nil).

For and on behalf of the Board of Directors who authorised the issue of these financial statements on 30 March 2017.

Dr Richard Treagus
Chairman

Dr Trevor Scott
Director

Financial Statements
for the year ended 31 December 2016

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

		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
Total income		1,494	3,106
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)
Loss before income tax		(13,858)	(14,146)
Income tax benefit	5	1,844	749
Loss after income tax		(12,014)	(13,397)
Other comprehensive expense, net of tax			
Disposal of Minority Interest		-	(221)
Exchange differences on translation of foreign operations		(6)	(60)
Total comprehensive loss for the period		(12,020)	(13,678)
Loss after tax attributable to Equity holders of the company:		(12,014)	(13,397)
Total comprehensive loss attributable to Equity holders of the company:		(12,020)	(13,678)
Basic and diluted loss per share	6	$0.007	$0.008

The notes on pages 9 to 22 form part of these financial statements

Consolidated Statement of Financial Position

as at 31 December 2016

	Notes	As at Dec 2016 $'000	As at Dec 2015 $'000
ASSETS			
Current Assets:			
Cash and cash equivalents	7	5,051	16,642
Current tax receivable	5	981	-
Trade and other receivables	8	21	34
Total current assets		6,053	16,676
Non-current assets:			
Property, plant and equipment		12	11
Intangible assets	9	145	217
Total non-current assets		157	228
TOTAL ASSETS		6,210	16,904
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables	10	2,027	2,502
Total current liabilities		2,027	2,502
Non-current liabilities:			
		-	-
Total liabilities		2,027	2,502
EQUITY			
Share capital	11	112,829	111,912
Other reserves		(10,292)	(7,764)
Accumulated deficit		(98,354)	(89,746)
Total equity attributable to equity holders		4,183	14,402
TOTAL LIABILITIES AND EQUITY		6,210	16,904

The notes on pages 9 to 22 form part of these financial statements

Consolidated Statement of Changes in Equity for the year ended 31 December 2016

Consolidated	Share Capital $'000	Share Option Reserve $'000	Currency Translation Reserve $'000	Accumulated Deficit $'000	Total Attributable to Equity Holders $'000	Minority Interest $'000	Total Equity $'000
Equity as at 1 January 2015	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)
Equity as at 31 December 2015	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)
Equity as at 31 December 2016	112,829	367	(10,659)	(98,354)	4,183	-	4,183

The notes on pages 9 to 22 form part of these financial statements

Consolidated Statement of Cash Flows

for the year ended 31 December 2016

	2016 $'000	2015 $'000
Cash flows from operating activities:		
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
Net cash used in operating activities	(12,378)	(12,731)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(10)	(3)
Provided from sale of property, plant, equipment	-	4
Net cash used in investing activities	(10)	1
Cash flows from financing activities:		
Proceeds from the issue of shares	-	6,350
Proceeds from the exercise of options	929	1,211
Payment of share issue expenses	(12)	(12)
Net cash provided from financing activities	917	7,549
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
Cash at the end of the year	5,051	16,642
Reconciliation with loss after income tax:		
Loss after income tax	(12,014)	(13,397)
Non-cash items requiring adjustment:		
Depreciation of property, plant and equipment	8	17
Amortisation of intangible assets	72	73
Share based payment expense	884	1,232
Foreign exchange loss / (gain)	115	(1,059)
Changes in working capital:		
Trade and other receivables	(968)	929
Trade and other payables	(475)	(526)
Net cash used in operating activities	(12,378)	(12,731)

The notes on pages 9 to 22 form part of these financial statements

Notes to the Consolidated Financial Statements
for the year ended 31 December 2016

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 30 March 2017.

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 sales 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. Refer Note 17.

2. Summary of significant accounting policies

These general-purpose financial statements are for the year ended 31 December 2016 and have been prepared in accordance with and comply 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.

(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 2016 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.

The financial statements of the 'Parent' are for the Company as a separate legal entity.

Statutory Base

Neuren is registered under the New Zealand Companies Act 1993 and is an issuer in terms of the New Zealand Securities Act 1978. Neuren is also registered as a foreign company under the Australian Corporations Act 2001.

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practices in New Zealand (NZ GAAP) and the requirements of the Financial Markets Conducts Act 2013.

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 such as in relation to the expensing versus capitalising of research and development costs as detailed in Note 2(f) and in relation to impairment, if any, of intangible assets set out in note 9. Actual results may differ from those estimates.

Changes in accounting policies

There were no changes in accounting policies in the year ended 31 December 2016.

New standards first applied in the period
There were no new standards adopted by the group for the first time for the financial year beginning on or after 1 January 2016 which had a material impact on the group:

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. The key items applicable to the Group are:

NZ IFRS 9 'Financial Instruments' (effective from 1 January 2018) addresses classification and measurement of financial assets and liabilities and is available for early adoption immediately. NZ IFRS 9 replaces the multiple classification and measurement models in IAS 39 'Financial Instruments: Recognition and Measurement' with a single model that has only two classification categories: amortised cost and fair value. The consolidated entity is not expecting any material impact of NZ IFRS 9 'Financial Instruments' on its financial statements.

NZ IFRS 16 'Leases' (effective from 1 January 2019) addresses recognition of almost all leases on the balance sheet, as the distinction between operating and finance leases is removed. The consolidated entity is only expecting a small impact of NZ IFRS 16 'Leases' on its financial statements.

There are no other standards, amendments or interpretations to existing standards which have been issued, but are not yet effective, which are expected to impact the Company or 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 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. Assets that are subject to amortisation are 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 market value less costs to sell 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) 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.

(l) 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.

(m) 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.

(n) 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

(o) Intangible assets
Intellectual property
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 (two years).

(p) 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, 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.

(q) 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.

(r) Financial instruments
Financial instruments recognised in the statement of financial position include cash and cash equivalents, trade and other receivables and payables and equipment finance. The Company believes that the amounts reported for financial instruments approximate fair value due to their short term nature.

Although it is exposed to interest rate and foreign currency risks, the Company does not utilise derivative financial instruments.

Financial assets: Loans and receivables
Loans and receivables are non-derivative financial 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.

(s) 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 was entirely received from Rettsyndrome.org in 2016 and from the United States federal government in 2015.

4. Expenses

	Consolidated	
	2016 $'000	2015 $'000
Loss before income tax includes the following expenses:		
Depreciation – property, plant and equipment		
Computer equipment	6	14
Fixtures and fittings	2	3
Total depreciation	8	17
Amortisation – intangible assets		
Intellectual property	71	72
Software	1	1
Total amortisation	72	73
Remuneration of auditors (PwC)		
Audit and review of financial statements	50	52
Total remuneration of auditors	50	52
Employee benefits expense		
Salaries and wages - research & development	980	961
Salaries and wages - corporate & adminstrative	379	406
Share based payments	740	757
Total employee benefits expense	2,099	2,124
Directors' fees		
Directors' fees - research & development	420	479
Directors' fees - corporate & administrative	414	470
Directors' share based payment compensation	144	475
Total Directors' fees	978	1,424
Lease expense	94	165

5. Income tax

	Consolidated	
	2016 $'000	2015 $'000
Income tax benefit		
Current tax	(1,844)	(749)
Deferred tax	-	-
Income tax benefit	(1,844)	(749)
Numerical reconciliation of income tax benefit to prima facie tax receivable:		
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)	-
	(4,219)	(3,874)
(Over) Under provision in prior years	(855)	(819)
Deferred tax assets not recognised	3,230	3,944
Income tax benefit	**(1,844)**	**(749)**
Current tax		
Current tax receivable at the beginning of the year	-	-
Current tax benefit	1,844	749
Received during the year	(863)	(749)
Current tax receivable at the end of the year	**981**	**-**
Deferred tax asset (liability)		
Amounts recognised in profit or loss		
Provisions and accruals	23	21
Intangible assets	263	206
Exchange Differences	44	(321)
Tax losses	27,389	24,582
	27,718	24,488
Unrecognised deferred tax assets	(27,718)	(24,488)
Deferred tax asset (liability)	**-**	**-**
Movements		
Deferred tax asset (liability) at the beginning of the year	-	-
Credited (charged) to the income statement	3,230	3,944
Change in unrecognised deferred tax assets	(3,230)	(3,944)
Deferred tax asset (liability) at the end of the year	**-**	**-**

The unrecognised deferred tax assets at 31 December 2016 include $18 million (2015: $17.7 million) for New Zealand tax losses. The Company may not be able to generate future taxable profits in New Zealand to utilise those losses.

6. Loss per share

Basic loss per share is based upon the weighted average number of outstanding ordinary shares. For the years ended 31 December 2016 and 2015, the Company's potentially dilutive ordinary share equivalents (being the options over ordinary shares set out in note 11) have an anti-dilutive effect on loss per share and, therefore, have not been included in determining the total weighted average number of ordinary shares outstanding for the purpose of calculating diluted loss per share.

	Consolidated	
	2016	**2015**
Loss after income tax attributable to equity holders - ($'000)	(12,014)	(13,397)
Weighted average shares outstanding (basic) - (No.)	1,783,503,420	1,680,362,334
Weighted average shares outstanding (diluted) - (No.)	1,783,503,420	1,680,362,334
Basic and diluted loss per share	($0.007)	($0.008)

7. 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

8. Trade and other receivables

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

9. Intangible Assets

	Consolidated		
	Intellectual Property $'000	Acquired Software $'000	Total $'000
As at 1 January 2015			
Cost	1,074	10	1,084
Accumulated amortisation	(787)	(7)	(794)
Net Book Value	287	3	290
Movements in the year ended 31 December 2015			
Opening net book value	287	3	290
Amortisation	(72)	(1)	(73)
Closing net book value	215	2	217
As at 31 December 2015			
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

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

10. Trade and other payables

	Consolidated	
	2016 $'000	**2015 $'000**
Trade payables	1,035	1,771
Accruals	915	648
Employee Benefits	77	83
	2,027	2,502

11. Share Capital

Consolidated	2016 Shares	2015 Shares	2016 $'000	2015 $'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)
	1,841,929,015	1,767,003,738	112,829	111,912

(a) 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.

(b) Share Options

Movements in the number of share options were as follows:

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

Share Option Plan

The Company has 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 2016 there are no options outstanding under the Share Option Plan (2015: 62,000,000).

No options were granted during 2016 or 2015.

The weighted average remaining contractual life of outstanding share options at 31 December 2016 is nil years (2015: 0.8 years). There are no outstanding share options.

(c) 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.

All shares issued prior to 31 December 2016 have been 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.

Before the shares can be issued, the New Zealand Companies Act requires the Company to disclose to shareholders the provision of financial assistance to the Participant in the form of the loan to purchase the shares.

The estimated fair value of the shares was determined using the Black-Scholes valuation model. The significant inputs into the model were the share price on the date of valuation, the estimated future volatility of the share price, a dividend yield of 0%, an expected life of 3 years, and an annual risk-free interest rate of 2.50%. The estimated future volatility of the share price was derived by analysing the historic volatility of the share price during a relevant period.

Details of the shares issued prior to the year ended 31 December 2016, the estimated fair value and variable inputs into the valuation model are shown in the following table:

Number of shares	40 million	30 million	20 million
Issue date	29 May 2013	28 May 2014	7 May 2015
Issue price per share	$0.039	$0.092	$0.082
Share price on date of valuation	$0.039	$0.069	$0.082
Fair value per share	$0.03	$0.04	$0.05
Estimated future volatility	119%	101%	95%

At 31 December 2016, 40 million Loan Funded Shares had vested, but remained held by the trust and 50 million Loan Funded Shares were unvested.

(d) 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.

The estimated fair value of each EPR was determined using the Black-Scholes valuation model. The significant inputs into the model were the grant date share price, estimated future volatility of the share price, dividend yield of 0%, an expected life of 3 years, and an annual risk-free interest rate of 2.5%. The estimated future share price volatility was derived by analysing the historic volatility of the Company's shares over a relevant period.

Details of the EPR issued prior to the year ended 31 December 2016, the estimated fair value and variable inputs into the valuation model are shown in the following table:

Number of EPR	9,615,385	2,666,667	643,225	1,308,901
Issue date	29 May 2013	31 May 2014	31 May 2014	24 September 2014
Fair value per share	$0.033	$0.038	$0.117	$0.076
Measurement date	31 January 2013	14 May 2013	16 August 2013	15 May 2014
Vesting date	31 January 2016	18 August 2016	25 August 2016	25 August 2017
Estimated future volatility	121%	101%	101%	95%

At 31 December 2016, 1,308,901 EPR remained outstanding.

12. 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	Amount due to parent 2016 $'000	Amount due to parent 2015 $'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	479	231
Hamilton Pharmaceuticals Inc.	Deregistered	Clinical research	100%	USA	-	-
Less: Impairment loss and provision for doubtful debt:					-	-
Neuren Pharmaceuticals (Australia) Pty Ltd	9-Nov-06	Dormant	100%	Australia	-	-

All subsidiaries have a balance date of 31 December.

13. 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 2016 $'000	Consolidated 2015 $'000
Non-cancellable operating lease commitments		
Not later than one year	12	74
Later than one year and not later than five years	-	12
	12	86

(b) Legal claims

The Company had no significant legal matter contingencies as at 31 December 2016 or at 31 December 2015.

(c) Capital commitments

The Company is not committed to the purchase of any property, plant or equipment as at 31 December 2016 (2015: nil).

14. 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	
	2016 $'000	2015 $'000
Directors:		
Fees and other short term benefits	834	949
Share based payment compensation	144	475
Management:		
Short-term benefits	1,078	1,203
Share based payment compensation	739	757
	2,795	3,384

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 other KMP, following the exercise of vested 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.

During the year ended 31 December 2016 Neuren Pharmaceuticals Inc charged the Parent fees of US$681,628 (2015: US$1,055,827) for pharmaceutical research services, and US$1,245,757 (2015: US$971,623) for reimbursement of third party development expenses. The Parent charged Neuren Pharmaceuticals Inc fees of US$56,000 (2015: US$56,000) for administrative services.

15. Events after balance date

Top-line results from Neuren's Phase 2 clinical trial of trofinetide in subjects aged 5 to 15 with Rett syndrome were announced on 22 March 2017. 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. This suggests that further benefit may be achieved with longer treatment duration. The 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.

As at the date of these financial statements, there were no other events arising since 31 December 2016 that require disclosure.

16. Financial instruments and risk management

(a) Categories of financial instruments

	Consolidated	
	2016 $'000	2015 $'000
Financial assets		
Cash and cash equivalents	5,051	16,642
Trade and other receivables	21	34
Total financial assets (loans and receivables classification)	5,072	16,676
Financial liabilities		
Amortised cost:		
Trade and other payables	2,027	2,502
Total financial liabilities	2,027	2,502

(b) Risk management

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

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 and 31 December 2015, there were no forward contracts outstanding.

During the year, the US dollar fluctuated against the Australian dollar. A foreign exchange loss of $185,000 is included in results for the year ended 31 December 2016 (2015: gain $1,081,000). 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	
	2016 $'000	2015 $'000
Assets		
US dollars	2,497	4,151
Liabilities		
US dollars	1,736	1,676

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 $69,000 (2015: $225,000). 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 $85,000 (2015: $275,000).

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	
	2016 $'000	2015 $'000
Financial assets		
Cash and cash equivalents		
Australian dollar cash deposits	2,554	12,491
Australian dollar interest rate	2.42%	2.85%
US dollar cash deposits	2,497	4,151
US dollar interest rate	0.01%	0.03%

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 $19,000 (2015:$33,000).

Credit risk
The Company and its subsidiaries incur credit risk from transactions with trade receivables and financial institutions in the normal course of its business. The credit risk on loans and receivables of the Group, which have been recognised in the statement of financial position, is the carrying amount, net of any allowance for doubtful debts. Cash and cash equivalents held with financial institutions are exposed to credit risk. These have been assessed by S&P as having a financial credit rating of AA.

The Company and its subsidiaries do not require any collateral or security to support transactions with financial institutions. The counterparties used for banking and finance activities are financial institutions with high credit ratings.

Liquidity risk
The Company and Group's financial liabilities, comprising trade and other payables, are generally repayable within 1 – 2 months, and are managed together with capital risk as noted below. Refer to Note 1 for inherent uncertainties.

Capital risk
The Company manages its capital to ensure that constituent entities are able to meet their estimated commitments as they fall due. The capital structure of the group consists of cash and cash equivalents, and equity of the parent, comprising issued capital, reserves and accumulated deficit. Refer to Note 1 for inherent uncertainties, and Note 17 below.

17. Going Concern Assumption

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 a loss after tax of $12.0 million for the year ended 31 December 2016 and had net assets and cash balances at 31 December 2016 of $4.2 million and $5.1 million respectively.

As disclosed in Note 15, top-line results from Neuren's Phase 2 clinical trial of trofinetide in subjects aged 5 to 15 with Rett syndrome were announced on 22 March 2017. The highest dose of trofinetide achieved statistically significant and clinically meaningful benefit compared with placebo. The 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. Following these results, the Directors intend that the Group will enter into a commercial partnering arrangement in 2017, 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 Company's shareholders have approved, for the purposes of the New Zealand Takeovers Code, 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 Directors therefore have 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 such allotments have been made.

The ability of the Group to enter into a commercial partnership arrangement or secure other sources of funding during the next 6 months gives rise to the existence of material uncertainties 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.

Additional Information

Equity Securities Held by Directors as at 30 March 2017

Director	Interests in Ordinary Shares	
	Direct	Indirect
Richard Treagus	-	50,115,385
Larry Glass	20,000,000	-
Bruce Hancox	-	-
Trevor Scott	20,000,000	50,118,249

Directors of subsidiary companies at 31 December 2016

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

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 22 of Neuren and its subsidiaries for the year ended 31 December 2016 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 2016 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 30 March 2017.

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 2016
- 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 2016, 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 for 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 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: $693,000, which represents 5% of net loss before tax.

We chose net loss before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark.

Our key audit matter is research and development costs

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

We draw attention to Note 17 to the financial statements, which discloses that the Group recorded a loss after tax of $12.0 million for the year ended 31 December 2016. The Company also had negative operating cash flows for the year of $12.4 million.

Following the release of the results of the Phase 2 trial of trofinetide for Rett syndrome on 22 March 2017, the Directors intend that the Group will enter into a commercial partnering arrangement during 2017, the timing and terms of which are presently unknown. In addition, the Directors will consider the need to secure other sources of funding, including additional capital in order to progress to next phase of development.

The ability of the Group to secure a commercial partnering arrangement and/or other sources of funding during the next 3 to 6 months gives rise to the existence of material uncertainties which, in the event the Group is not successful, may give rise to significant doubt over the ability of the Group to continue to operate as a going concern. 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 $12.4 million for the year ended 31 December 2016. 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	Our audit procedures over research and development costs included: • Gaining an understanding of the Rett syndrome project and product and the associated costs incurred to-date; • Agreeing a sample of costs incurred in this period to supplier invoices 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 2016, the results of the Phase 2 trial subsequent to balance sheet date as disclosed in note 15 and the remaining dependencies the Group has in relation to commercialising the product ;

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 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.

- Using this understanding, we evaluated management's assessment of whether the Rett syndrome costs met the criteria for capitalisation.

We have no matters to report.

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://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page2.aspx

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 Julian Prior.

For and on behalf of:

PricewaterhouseCoopers.

Chartered Accountant
30 March 2017

Auckland