
Neuren Pharmaceuticals Limited
Appendix 4D Half-Year Financial Report

30 June 2014

Name of entity

Neuren Pharmaceuticals Limited

ABN

72 111 496 130

Half-year ended

30 June 2014

1. Reporting Period

Neuren Pharmaceuticals Limited ("Neuren" or the "Company") presents this financial report, including the interim financial statements, for the six months ended 30 June 2014, with the six months ended 30 June 2013 as the comparative period.

2. Results for announcement to the market

	30 June 2014 \$' 000	30 June 2013 \$' 000	% Change
2.1 Operating revenue	1,728	2,793	(38.1)%
2.2 Loss after tax from ordinary activities	(4,656)	(3,062)	(52.1)%
2.3 Net loss from ordinary activities	(4,656)	(3,062)	(52.1)%
2.4 Dividends and franked amount per security	nil	nil	n/a
2.5 Dividend record date	n/a	n/a	n/a

2.6 Explanation of results:

The consolidated net loss attributable to equity holders for the period increased from \$3.1 million to \$4.6 million, due to the following:

- Research and development costs increased by \$0.5 million reflecting the addition of costs for the Rett Syndrome and Fragile X Syndrome clinical trials, offset by lower manufacturing costs for the Intrepid clinical trial;
- Grant revenue decreased by \$1.3 million reflecting the lower manufacturing costs for the Intrepid clinical trial;
- Foreign exchange losses increased by \$0.5 million, due mainly to the revaluation of US dollar cash deposits and outstanding forward contracts to purchase US dollars, as the Australian dollar strengthened against the US dollar; offset by
- Interest income increased by \$0.3 million, due to interest on Australian dollar cash deposits following the capital raising completed in October 2013.

A more detailed discussion of the activities undertaken in the period is set out in the Directors' Report contained in the attached interim financial statements.

3. Net Tangible Assets per Security

	<u>June 2014</u>	<u>June 2013</u>
Net tangible assets per share	\$ 0.013	\$ 0.001

4. Entities over which control has been gained or lost during the period:

Not applicable.

5. Details of dividends

Not applicable.

6. Details of dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

None.

8. Accounting standards

The interim financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand, International Accounting Standard 34 and NZ IAS 34 *Interim Financial Reporting*.

9. Auditors review

The interim financial statements have been subject to independent review by the Company's auditors. The unqualified review report is included in the attached Interim Report.

2014

Interim Report

Neuren Pharmaceuticals Limited

ABN 72 111 496 130

Directors' Report

The Directors submit the financial report of Neuren Pharmaceuticals Limited for the six months ended 30 June 2014.

Directors' details

The names of Directors who held office during or since the end of the half-year are:

Dr Richard Treagus (Executive Chairman)

Mr Larry Glass

Mr Bruce Hancox

Dr Trevor Scott

Review of Operations

Neuren Pharmaceuticals Limited (Neuren or the Company, and its subsidiaries, or the Group) is a publicly listed biopharmaceutical company focusing on the development of drugs for neurological disorders.

During the six months to 30 June 2014 Neuren made further progress on implementing its corporate development strategy. The strategy is designed to increase the value of Neuren's key assets by extending the therapeutic focus from acute brain injury to chronic neurological conditions requiring longer term dosing. Developments since 1 January 2014 have included:

- A Phase 2 trial of NNZ-2566 in Fragile X Syndrome commenced.
- A new patent was granted by the US Patent and Trademark Office for Neuren's second drug candidate NNZ-2591, claiming improvement of impaired cognitive performance.
- Neuren's leadership team was strengthened further by the appointment of an executive with extensive experience in Chemistry Manufacturing and Controls (CMC) aspects of pharmaceutical product development.
- Enrolment of subjects was completed in the Phase 2 clinical trial of NNZ-2566 in Rett Syndrome.
- Neuren's grant from the US Army was increased by approximately US\$3 million and extended to 31 December 2015.
- Activities were initiated that will support filing of an Investigational New Drug application (IND) with the US Food and Drug Administration (FDA) and subsequent clinical development of NNZ-2591.
- A Phase 2 trial of NNZ-2566 in concussion commenced, subject to US Army approval.
- Neuren discontinued funding of the anticancer intellectual property and development program owned by its subsidiary Perseis Therapeutics Limited.

As disclosed in the Annual Report for the year ended 31 December 2013, the Company's functional currency and the Group's reporting currency were changed from New Zealand dollars to Australian dollars from 1 January 2014. This change followed the transfer of the Company's corporate office from Auckland, New Zealand to Melbourne, Australia. The prior period comparative numbers in these financial statements have been restated in Australian dollars in order to provide meaningful comparable information.

The detailed financial statements are presented on pages 3 to 11. All amounts in the Financial Statements are shown in Australian dollars unless otherwise stated.

The Group's net loss attributable to equity holders of the Company for the six months ended 30 June 2014 was \$4.6 million (six months ended 30 June 2013: \$3.2 million). The increased loss was mainly due to the following:

Directors' Report

- Research and development costs increased from \$3.9 million to \$4.4 million, reflecting the addition of costs for the Rett Syndrome and Fragile X Syndrome clinical trials, offset by lower manufacturing costs for the Intrepid clinical trial;
- Grant revenue from the US Army decreased from \$2.7 million to \$1.4 million, reflecting the lower Intrepid clinical trial manufacturing costs;
- Foreign exchange losses increased by \$0.5 million, due mainly to the revaluation of US dollar cash deposits and outstanding forward contracts to purchase US dollars, as the Australian dollar strengthened against the US dollar; offset by
- Interest income increased by \$0.3 million, due to interest on Australian dollar cash deposits following the capital raising completed in October 2013.

The net loss per share for the six months to 30 June 2014 was 0.3 cents (six months to 30 June 2013: 0.3 cents) based on a weighted average number of shares outstanding of 1,542 million (six months to 30 June 2013: 1,192 million).

Cash reserves at 30 June 2013 were \$22.5 million (31 December 2013: \$24.4 million). Net cash used in operating activities was \$2.6 million, offset by \$1.1 million proceeds received from the exercise of share options. The strengthening of the Australian dollar against the US dollar during the period resulted in a loss of \$0.4 million on the revaluation of US dollar cash reserves.

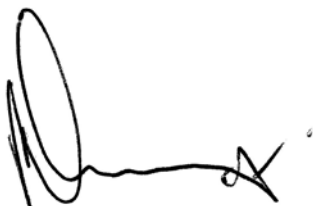
Corporations Act, Australia - Directors' declaration

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

1. The accompanying financial statements of Neuren and its subsidiaries for the six months ended 30 June 2014 and the notes to those financial statements:
 - (a) comply with the accounting standards issued by the New Zealand Accounting Standards Review Board; and
 - (b) give a true and fair view of the financial position as at 30 June 2014 and of the performance for the six months 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 report is signed and the declaration made in accordance with a resolution of the Board of Directors dated 27 August 2014.

On behalf of the Board



Dr Richard Treagus
Executive Chairman

Interim Statement of Comprehensive Income (Unaudited)

for the six months ended 30 June 2014

Group	Six months Jun 2014 A\$' 000	Six months Jun 2013 A\$' 000
Revenue - interest income	303	46
Other income - grants	1,425	2,747
Total revenue and other income	1,728	2,793
Research and development costs	(4,379)	(3,891)
Corporate and administrative costs	(1,050)	(1,067)
Share based payments expense	(388)	(509)
Foreign exchange loss	(497)	(39)
Depreciation and amortisation expense	(54)	(189)
Restructuring costs	-	(187)
Impairment loss	(31)	-
Loss before income tax	(4,671)	(3,089)
Income tax expense	-	-
Loss after income tax for the period	(4,671)	(3,089)
Other comprehensive income (expense), net of tax		
Exchange differences on translation of foreign operations	26	(82)
Total comprehensive loss for the period	(4,645)	(3,171)
Loss after tax attributable to:		
Equity holders of the company	(4,656)	(3,062)
Minority interest	(15)	(27)
	(4,671)	(3,089)
Total comprehensive loss attributable to:		
Equity holders of the company	(4,630)	(3,144)
Minority interest	(15)	(27)
	(4,645)	(3,171)
Basic and diluted loss per share	0.3 cents	0.3 cents

The accompanying notes form part of this financial report.

Interim Statement of Financial Position (Unaudited)

as at 30 June 2014

Group	As at Jun 2014 A\$' 000	As at Dec 2013 A\$' 000
ASSETS		
Current Assets:		
Cash and cash equivalents	22,465	24,379
Trade and other receivables	849	1,664
Total current assets	23,314	26,043
Non-current assets:		
Property, plant and equipment	29	23
Intangible assets	327	394
Total non-current assets	356	417
TOTAL ASSETS	23,670	26,460
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	2,455	2,061
Total liabilities	2,455	2,061
EQUITY		
Share capital	103,250	102,177
Other reserves	9,994	9,580
Accumulated deficit	(91,812)	(87,156)
Total equity attributable to equity holders	21,432	24,601
Minority interest in equity	(217)	(202)
Total equity	21,215	24,399
TOTAL LIABILITIES AND EQUITY	23,670	26,460

The accompanying notes form part of this financial report.

Interim Statement of Changes in Equity (Unaudited)

for the six months ended 30 June 2014

Group	Attributable to Equity Holders				Total A\$'000	Minority Interest A\$'000	Total Equity A\$'000
	Share Capital A\$'000	Share Option Reserve A\$'000	Currency Translation Reserve A\$'000	Accumulated Deficit A\$'000			
Equity as at 1 January 2013	64,091	8,073	(273)	(65,414)	6,477	(145)	6,332
Restatement due to change in functional and reporting currency	4,473	581		(4,516)	538	(10)	528
Shares issued on option exercise	519				519		519
Share issue costs expensed	(19)				(19)		(19)
Share based payments		509			509		509
Total comprehensive loss for the period			(82)	(3,062)	(3,144)	(27)	(3,171)
Equity as at 30 June 2013	69,064	9,163	(355)	(72,992)	4,880	(182)	4,698
Equity as at 1 January 2014	102,177	10,098	(518)	(87,156)	24,601	(202)	24,399
Shares issued on option exercise	1,140				1,140		1,140
Share issue costs expensed	(67)				(67)		(67)
Share based payments		388			388		388
Total comprehensive loss for the period			26	(4,656)	(4,630)	(15)	(4,645)
Equity as at 30 June 2014	103,250	10,486	(492)	(91,812)	21,432	(217)	21,215

The accompanying notes form part of this financial report.

Interim Cash Flow Statement (Unaudited)

for the six months ended 30 June 2014

Group	Six months Jun 2014 A\$' 000	Six months Jun 2013 A\$' 000
Cash flows from operating activities:		
Receipts from grants	2,044	2,747
Interest received	307	46
GST refunded	141	37
Payments to employees	(485)	(790)
Payments to other suppliers	(4,605)	(4,457)
Net cash used in operating activities	(2,598)	(2,417)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(20)	(3)
Purchase of intangible assets	(3)	-
Net cash used in investing activities	(23)	(3)
Cash flows from financing activities:		
Proceeds from the exercise of options	1,140	519
Payments for share issue expenses	(67)	(9)
Net cash from financing activities	1,073	510
Net decrease in cash held	(1,548)	(1,910)
Effect of exchange rate changes on cash balances	(366)	236
Cash at the beginning of the period	24,379	5,130
Cash at the end of the period	22,465	3,456
Reconciliation with loss after income tax:		
Loss after income tax	(4,671)	(3,089)
Items requiring adjustment:		
Depreciation and amortisation	54	189
Impairment loss	31	-
Share based payments	388	509
Lease incentive amortisation	-	(3)
Foreign exchange loss	415	39
Movements in working capital	1,185	(62)
Net cash used in operating activities	(2,598)	(2,417)

The accompanying notes form part of this financial report.

Notes to the Interim Financial Statements (Unaudited) for the six months ended 30 June 2014

1. Nature of business

Neuren Pharmaceuticals Limited (Neuren or the Company, and its subsidiaries, or the Group) is a publicly listed biopharmaceutical company focusing on the development of drugs for neurological disorders. The neurological drugs target symptoms resulting from acute traumatic brain injury and concussion as well as chronic conditions such as Rett Syndrome and Fragile X Syndrome.

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 operates in Australia and its ordinary shares are listed on the Australian Securities Exchange (ASX code: NEU).

These consolidated interim financial statements have been approved for issue by the Board of Directors on 27 August 2014.

2. Summary of significant accounting policies

These general-purpose interim financial statements are for the six months ended 30 June 2014 and have been prepared in accordance with, and comply with, generally accepted accounting practice in New Zealand, International Accounting Standard 34 and NZ IAS 34 *Interim Financial Reporting*.

Effective 1 January 2014, the functional currency of the Company and the presentation currency of the Group each changed from New Zealand dollars to Australian dollars. The change in functional currency resulted from the transfer of the Company's place of business from New Zealand to Australia and it reflects the underlying transactions, events and conditions that are relevant to the Company. The new functional currency was applied prospectively from 1 January 2014, in accordance with IAS 21. Prior period comparative numbers for the Group in these financial statements have been restated in Australian dollars in order to provide meaningful comparable information.

There have been no other significant changes in accounting policies during the current period. The other accounting policies that materially affect the measurement of the Statement of Comprehensive Income, Statement of Financial Position and the Statement of Cash Flows have been applied on a basis consistent with those used in the audited financial statements for the year ended 31 December 2013 and the unaudited financial statements for the six months ended 30 June 2013. There is no cyclical seasonality of interim operations.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this interim report is to be read in conjunction with the annual report for the year ended 31 December 2013.

Notes to the Interim Financial Statements (Unaudited)

for the six months ended 30 June 2014

New standards first applied in the period

The Company has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) (XRB A1). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Company is a Tier 1 entity. There was no impact on the current or prior year financial statements.

Other amendments to IFRSs effective for the financial year ending 31 December 2014 are not expected to have a material impact on the group.

3. Loss before income tax

The loss before income tax includes:

Group	Jun 2014 A\$'000	Jun 2013 A\$'000
Depreciation	(14)	(9)
Amortisation of intangible assets		
- Intellectual property	(40)	(180)
Impairment of intangible assets		
- Intellectual property	(31)	-
Foreign exchange loss on revaluation of forward contracts	(140)	-

The impairment charge of approximately \$31,000 in the period relates to the write down to nil recoverable value of the intellectual property owned by the subsidiary Perseis Therapeutics Limited.

At 30 June 2014, two forward contracts to convert Australian dollars to US dollars were outstanding, as detailed in the table below. Adjustment of these obligations to fair value as measured at 30 June 2014 resulted in a loss of approximately \$140,000.

Settlement date	Buy US dollars	Sell Australian dollars	Contract rate
26 September 2014	\$1,500,000	\$1,666,667	0.90
29 December 2014	\$1,500,000	\$1,666,667	0.90

Notes to the Interim Financial Statements (Unaudited)

for the six months ended 30 June 2014

4. Share capital

	6 months Jun 2014 Shares	Year Dec 2013 Shares
Consolidated		
Issued share capital		
Ordinary shares on issue at beginning of period	1,512,528,963	1,182,786,570
Restatement on change in functional currency	-	-
Shares issued in private placement	-	187,000,000
Shares issued in Share Purchase Plan	-	17,606,589
Shares issued in Loan Funded Share Plan	30,000,000	40,000,000
Shares issued on option exercise	42,825,309	85,135,804
Shares issue expenses – cash issue costs	-	-
Ordinary shares on issue at end of period	<u>1,585,354,272</u>	<u>1,512,528,963</u>

At 30 June 2014, options were outstanding to acquire 155,593,911 shares at a weighted average price of \$0.0213 per share (31 December 2013: 198,419,220 shares at a weighted average price of \$0.0225).

During the period to 30 June 2014, equity performance rights (EPRs) to acquire 3,309,892 shares were granted to executives as long term incentives. The EPRs may be exercised at nil exercise price after 3 years. During the period to 30 June 2013, EPRs to acquire 9,615,385 shares were granted to the Executive Chairman as a long term incentive. The EPRs may be exercised at nil exercise price after 3 years.

5. Commitments and contingencies

(a) Operating leases

The current commitment relates to a lease of premises for two years and six months commencing June 2013, with an option to renew for a further term of three years, and annual CPI reviews throughout.

Group	Jun 2014 A\$'000	Dec 2013 A\$'000	Jun 2013 A\$'000
Non-cancellable operating lease commitments			
Not later than one year	60	58	80
Later than one year and not later than five years	25	53	83
Later than five years	-	-	-
	<u>85</u>	<u>111</u>	<u>163</u>

Notes to the Interim Financial Statements (Unaudited)

for the six months ended 30 June 2014

(b) Legal claims

The Group had no significant legal or other contingencies as at 30 June 2014, 30 June 2013, or 31 December 2013.

(c) Capital commitments

The Company was not committed to the purchase of any property, plant or equipment as at 30 June 2014 (30 June 2013 and 31 December 2013: nil).

6. 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 from the development of pharmaceutical products. In the prior year financial information was presented as two geographic segments, being New Zealand and the United States. Internal management systems and the reporting of financial information changed during 2013 following the reorganisation and transfer of the corporate office to Australia.

Further information on revenue is shown in the table below. United States Grant income was entirely received from the United States federal government.

	Jun 2014 A\$'000	Jun 2013 A\$'000
Grant income – United States	1,425	2,747
Total Grant income	1,425	2,747
Interest income - Australia	300	22
Interest income – New Zealand	2	24
Interest income – United States	1	-
Total interest income	303	46

7. Related Party transactions

During the period to 30 June 2014, 30 million shares were issued under the Company's Loan Funded Share Plan as a long term incentive for Key Management Personnel (KMP). During the period to 30 June 2013, 40 million shares were issued under the Loan Funded Share Plan as a long term incentive for the Executive Chairman. The shares are held in trust for a vesting period of three years and transfer to the beneficiary is subject to the achievement of certain performance criteria. In addition, as detailed in Note 4, equity performance rights (EPRs) were granted to KMP and to the Executive Chairman.

Notes to the Interim Financial Statements (Unaudited)

for the six months ended 30 June 2014

Share based payments expense of \$327,243 (six months ended 30 June 2013: \$91,963) was recognised in the Statement of Comprehensive Income in respect of the loan funded shares and EPRs.

8. **Events after balance date**

As at the date of this financial report there were no events arising since 30 June 2014 that require disclosure.



Independent Accountants' Report to the shareholders of Neuren Pharmaceuticals Limited

Report on the Interim Financial Statements

We have reviewed the interim condensed financial statements ("financial statements") of Neuren Pharmaceuticals Limited on pages 3 to 11, which comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, cash flow statement and statement of changes in equity for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Interim Financial Statements

The Company's Directors are responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 30 June 2014, and its financial performance and cash flows for the period ended on that date.

Accountants' Responsibility

We are responsible for reviewing the financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the financial statements do not present fairly the matters to which they relate.

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Group for the period ended 30 June 2014 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants.

We have no relationship with, or interests in, Neuren Pharmaceuticals Limited or any of its subsidiaries other than in our capacities as accountants conducting this review, as auditors, taxation advisors and providers of other assurance services. These services have not impaired our independence as accountants conducting this review.



Independent Accountants' Report

Neuren Pharmaceuticals Limited

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements which have been prepared in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting do not present fairly the financial position of the Group as at 30 June 2014 and its financial performance and cash flows for the period ended on that date.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an accountants' 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 review procedures, for this report or for the opinions we have formed.

Price Waterhouse Coopers

Chartered Accountants
27 August 2014

Auckland



Appendix A

Wholly-owned subsidiaries of Neuren Pharmaceuticals

The wholly-owned subsidiaries of Neuren Pharmaceuticals Limited included within the terms of the letter of engagement for review engagement services are:

- AgVentures Limited
- NeuroendocrinZ Limited
- Neuren Pharmaceuticals Inc
- Neuren Pharmaceuticals (Australia) Pty Limited
- Hamilton Pharmaceuticals Inc
- Perseis Therapeutics Limited (owned 72.22%)