Rule 4.3A

Appendix 4E

Neuren Pharmaceuticals Limited
ARBN 111 496 130

Preliminary final report
Financial year ended 31 December 2018

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

1. Reporting Period

Neuren Pharmaceuticals Limited ARBN 111 496 130 presents the following consolidated information for the year ended 31 December 2018 together with comparative results for the year ended 31 December 2017.

All amounts shown are in Australian dollars unless otherwise stated.

2. Results for announcement to the market

	2018 $'000	2017 $'000	Increase/(Decrease) $'000	% Change
2.1 Operating Revenue	15,169	10,160	5,009	49%
2.2 Profit after Tax attributable to equity holders	3,073	3,288	(215)	(7%)
2.3 Profit attributable to equity holders	3,073	3,288	(215)	(7%)
2.4 Dividends	N/A	N/A	N/A	N/A

During the year Neuren transitioned into a fundamentally stronger position due to the licence agreement with ACADIA Pharmaceuticals Inc ("ACADIA") for trofinetide in North America, which was executed in August 2018. Cash reserves at 31 December 2018 were $23.6 million, compared with $4.7 million at the start of the year. Cash inflow of $6.4 million was generated from operations, compared with an outflow of $5.6 million in 2017.

The profit after tax attributable to equity holders was $3.1 million compared with $3.3 million in 2017. Revenue of $13.5 million was received under the licence agreement with ACADIA (2017: nil) and foreign exchange gains were $0.9 million compared with foreign exchange losses of $0.2 million in 2017. These were offset by an increase of $1.0 million in research and development costs, resulting from higher expenditure on manufacturing scale-up and non-clinical toxicity studies, and a loss of $3.9 million compared with a gain of $9.5 million in 2017 on the fair value of the remaining settlements from Lanstead Capital under the Sharing Agreement that was entered into as part of the capital raising in July 2017.

3. Income Statement

Refer to attached Financial Statements.

4. Balance Sheet

Refer to attached Financial Statements.

5. Statement of Cash Flows

Refer to attached Financial Statements.

6. Statement of Changes in Equity

Refer to attached Financial Statements.

7. Dividends

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

8. Dividend or Distribution Reinvestment Plan

Not applicable.

9. Net Tangible Assets per Security

	31 December 2018 $	31 December 2017 $
Net tangible assets per security	$0.24	$0.16

10. Changes in Control Over Entities

Not applicable.

11. Associates and Joint Venture Entities

Not applicable.

12. Significant Information

Refer to attached Financial Statements.

13. Accounting Standards

The Financial Statements have been prepared in accordance with and comply with generally accepted accounting practice in New Zealand (GAAP), New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) which comply with International Financial Reporting Standards, the requirements of the Financial Markets Conduct Act 2013, and other applicable Financial Reporting Standards as appropriate for profit-oriented entities that fall into Tier 1 as determined by the New Zealand Accounting Standards Board.

14. Commentary on the Results

Refer to attached Financial Statements.

15. Audit Status

This report is based upon the attached audited financial statements for the year ended 31 December 2018.

Neuren Pharmaceuticals Limited

Financial Report and Directors' Report
for the year ended 31 December 2018

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 the year Neuren transitioned into a fundamentally stronger position due to the licence agreement with ACADIA Pharmaceuticals Inc ("ACADIA") for trofinetide in North America, which was executed in August 2018. Cash reserves at 31 December 2018 were $23.6 million, compared with $4.7 million at the start of the year. Cash inflow of $6.4 million was generated from operations, compared with an outflow of $5.6 million in 2017.

Under the licence agreement ACADIA was granted exclusive rights to develop and commercialise trofinetide for all clinical indications in North America. The partnership with ACADIA has provided five key financial benefits to Neuren:

- ACADIA is investing circa. US$55 million (A$77 million at the current exchange rate) into the Rett syndrome Phase 3 program. This would otherwise have been a minimum capital raise requirement for Neuren in order to be able to continue development for Rett syndrome.
- Receipt of the first payment from ACADIA of US$10 million (A$13.5 million) provided non-dilutive funding necessary for Neuren to retain ownership and advance the development of its highly promising drug candidate NNZ-2591 as a therapy for neurodevelopmental disorders, which is now a major focus for the Company. These disorders include Phelan-McDermid syndrome (PMS), for which Neuren recently announced positive effects in a pre-clinical model. The program of standard characterisation and non-clinical safety studies required before filing an Investigational New Drug application (IND) with the FDA and commencing clinical trials are now in progress.
- ACADIA provides expert execution capabilities in the US for Phase 3 and commercialization of trofinetide. The Neuren and ACADIA teams are collaborating very effectively on all the preparations for the Rett syndrome Phase 3 trial, which include manufacturing the drug supplies, finalising the trial protocols, preparing clinical sites and completing standard non-clinical studies.
- Neuren secured strong participation in the future value of trofinetide in the US through double digit percentage royalties on all sales plus further payments of up to US$455 million (A$640 million at the current exchange rate) on achievement of development and sales milestones, as well as one third of the market value of any Rare Pediatric Disease Priority Review Voucher, if awarded by the US Food and Drug Administration upon approval of a New Drug Application for trofinetide. The potential milestone payments to Neuren consist of US$105 million subject to achievement of development milestones in Rett syndrome and Fragile X syndrome and up to US$350 million subject to achievement of thresholds of annual net sales of trofinetide in North America.
- Neuren retained all commercial rights to trofinetide outside North America and has free access and rights to use all the technical, clinical and regulatory data that will be generated by ACADIA in the United States. Anticipating discussions with interested parties, Neuren recently appointed Torreya, a global investment bank specialising in life sciences, as its corporate advisor. Torreya is working closely with Neuren management and will assist the board in considering all potential corporate transactions including individual products, territories, or Neuren's entire business.

The licence agreement with ACADIA followed a period of exclusive negotiations under an exclusivity deed executed in May 2018. Under the deed, Neuren received US$4 million and issued 1,330,000 Neuren shares at A$4.00 per share, which was a premium of approximately 33% over the 10-day volume-weighted average share price of $3.00.
Under the terms of the licence agreement for North America, Neuren granted ACADIA a right of first negotiation for other territories prior to Neuren negotiating with other parties, which was exercised in October 2018. On 1 February 2019 Neuren reported that the period of exclusive negotiation had concluded and that having considered the terms of a proposal received from ACADIA, the board determined it would not be in the best interests of Neuren's shareholders to accept the offer.

In April 2018 Neuren announced the grant of the first patent by the Japan Patent Office for trofinetide. The new patent titled "Treatment of autism spectrum disorders using glycyl-L-2-methylprolyl-L-glutamic acid" will expire in January 2032, with the potential to be extended for up to 5 years.

During the year the composition of the board was refreshed through the appointment in July 2018 of Dianne Angus, Patrick Davies and Jenny Harry as non-executive directors. The new directors have brought highly relevant skills, diversity and experience in drug development and commercialisation. Larry Glass retired from the board at the end of 2018, continuing in his executive role as Neuren's Chief Science Officer. Following these changes, the composition of the board is 4 independent non-executive directors and 1 executive director.

The consolidated financial statements are presented on pages 6 to 25. All amounts in the Financial Statements are shown in Australian dollars unless otherwise stated.

The Group's profit after tax attributable to equity holders of the Company for the year ended 31 December 2018 was $3.1 million compared with $3.3 million in 2017. Revenue of $13.5 million was received under the licence agreement with ACADIA (2017: nil) and foreign exchange gains were $0.9 million compared with foreign exchange losses of $0.2 million in 2017. These were offset by an increase of $1.0 million in research and development costs, resulting from higher expenditure on manufacturing scale-up and non-clinical toxicity studies, and a loss of $3.9 million compared with a gain of $9.5 million in 2017 on the fair value of the remaining settlements from Lanstead Capital under the Sharing Agreement that was entered into as part of the capital raising in July 2017. Prudent control of expenditure continues to be an important principle in the Group's operations and financing.

The basic earnings per share for 2018 was $0.031 (2017: $0.036 per share) based on a weighted average number of shares outstanding of 99,038,854 (2017: 91,960,841).

Cash reserves at 31 December 2018 were $23.6 million (2017: $4.7 million). Cash generated from operations was $6.4 million, compared with cash outflow of $5.6 million in 2017, due mainly to the receipt of $13.5 million from ACADIA. Financing provided cash of $11.7 million from the issue of shares in May 2018 under the exclusivity deed with ACADIA and settlements from the Lanstead Sharing Agreement, compared with $5.3 million in 2017 from the issue of shares in the July 2017 capital raising and subsequent settlements from the Sharing Agreement. At 31 December 2018, Neuren had already received $10.3 million from Lanstead with 6 settlements still to be received in the first half of 2019.

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)

Richard 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. Richard 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 Richard 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. Richard is Chairman of BTC Health Limited, which is listed on the ASX.

Larry Glass (Executive Director and Chief Science Officer)

Larry retired from the Neuren Board on 31 December 2018 and continues as Chief Science Officer. He joined Neuren in 2004 and was an Executive Director from 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. Larry is a biologist with additional graduate training in epidemiology and biostatistics.

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

Trevor 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. Trevor serves on numerous corporate boards and is chairman of several.

Dianne Angus BSc (Hons), Master of Biotechnology, IPTA (Non-Executive Director) - Appointed 1 July 2018

Dianne joined the Neuren Board in July 2018. She has worked as a senior executive and non-executive director within the biotechnology, biopharmaceutical and agritech industries for over twenty-five years. She has created numerous global industry partnerships which include Prana Biotechnology, Gerolymatos International, Florigene, Suntory & Monsanto to yield novel and competitive medical, pharmaceutical and agricultural products. Dianne has successfully forged strong partnerships with key medical opinion leaders to create innovative clinical research programs and driven the development path for novel neurological pre-clinical agents to late-stage clinical assets before the FDA and European regulators. With over fifteen years' experience in an ASX and NASDAQ listed company, she has expertise in business development, capital raising, investor relations, regulatory affairs and intellectual property, together with corporate governance and compliance capabilities. Dianne holds a Masters degree in biotechnology and is a registered patent attorney.

Patrick Davies B EC, MBA (Non-Executive Director) - Appointed 1 July 2018

Patrick joined the Neuren Board in July 2018. He has held executive management roles in the Australian and New Zealand healthcare industry for over twenty five years having performed successfully in senior roles across many industry sectors including pharmacy, primary care, pharmaceutical and consumer products. During his ten year period as Chief Executive Officer of EBOS Group Limited (and previously Symbion), the enterprise value of the group achieved compound annual growth in enterprise value of +20% (from circa $450M to in excess of $3.1B). He is a director on other corporate boards and provides strategic advice to a range of healthcare businesses and investors.

Dr Jenny Harry BSc (Hons), PhD (Non-Executive Director) - Appointed 7 July 2018
Jenny joined the Neuren Board in 2018. She has 20 years' experience in executive management of companies in the biotechnology and biopharmaceutical sectors. She is currently the Managing Director of Ondek Pty Ltd, an Australian biopharmaceutical company developing new treatments for paediatric allergy. In her previous role, as CEO and Managing Director of Tyrian Diagnostics, Jenny transformed the company from an R&D business to a diagnostics company and oversaw development of the company's first products through to commercialisation and early revenue generation. She is a graduate of the Harvard Business School General Manager Program and the Australian Institute of Company Directors. Jenny is currently Chair of QUT Enterprise Holdings and a non-executive director on the boards of QUTbluebox and Creative Enterprise Australia.

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 2018 are as follows:

Dr Richard Treagus
In accordance with the rules of the Loan Funded Share Plan, on 30 May 2018 the Company bought back 501,607 ordinary shares from Neuren Trustee Limited at the volume weighted average price for the 5 days ended 29 May 2018 in order to settle the outstanding loan of $1,560,000 relating to 2 million vested Loan Funded Shares that were held in trust for Dr Treagus pending repayment to the Company of the loan. The remaining 1,498,393 shares were transferred from Neuren Trustee Limited to Richard.

On 28 October 2018, Dr Treagus purchased 16,000 shares at $1.24 per share.

Patrick Davies
On 10, 13 and14 August 2018, Mr Davies purchased 69,646 shares at $1.44 per share.

Dr Jenny Harry
On 10 August 2018, Dr Harry purchased 14,084 shares at $1.46 per share.

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

Indemnification and Insurance of Directors and Officers
Neuren has entered into a deed of indemnity, insurance and access with Directors and Officers, 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 indemnity does not cover criminal liability or liability in respect of a breach of a director's duty to act in good faith and in what the director believes to be the best interests of the Company or a breach of any fiduciary duty owed to the Company or a subsidiary.

Donations
No donations were made by the Company or its subsidiary companies during the year (2017: $nil).

Remuneration of Directors
Remuneration of the Directors is shown in the table below. Remuneration for Larry Glass was receivable from a subsidiary company, Neuren Pharmaceuticals Inc. Remuneration for 2018 and 2017 includes the settlement of deferred amounts following the waivers and reductions in fees that were implemented as cash conservation measures in October 2016, as disclosed in the Directors' Report and Financial Statements for the year ended 31 December 2017.

	2018 $'000	2017 $'000
Dr Richard Treagus	536	418
Mr Larry Glass	310	528
Dr Trevor Scott	72	-
Dianne Angus	30	-
Patrick Davies	30	-
Dr Jenny Harry	30	-

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

	2018 $'000	2017 $'000
$150,000 - $159,999	-	1
$240,000 - $249,999	1	1
$270,000 - $279,999	1	1
$320,000 - $329,999	-	1
$410,000 - $419,999	1	-

Including shared based payments

	2018 $'000	2017 $'000
$150,000 - $159,999	-	1
$240,000 - $249,999	1	-
$270,000 - $279,999	1	-
$290,000 - $299,999	-	1
$410,000 - $419,999	1	-
$430,000 - $439,999	-	1

Auditors
Grant Thornton New Zealand Partnership (2017: PricewaterhouseCoopers) is the independent auditor of the Company. Grant Thornton audit fees in relation to the 2018 annual and interim financial statements were $58,538. PricewaterhouseCoopers fees in relation to the 2017 financial statements were $67,654 in 2018 and $59,255 in 2017. Grant Thornton Australia (member firm) received $15,000 fees in relation to other financial advice and services in 2018. PricewaterhouseCoopers did not receive fees in relation to other financial advice and services in 2017 or 2018. No amounts were payable to an auditor by subsidiary companies in 2018 or 2017.

For and on behalf of the Board of Directors who authorised the issue of these financial statements on 27 February 2019.

Dr Richard Treagus
Chairman

Dr Trevor Scott
Director

Neuren Pharmaceuticals Limited
Financial Statements
for the year ended 31 December 2018

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Interest income		218	47
Revenue from licence agreement		13,544	-
Foreign exchange gain		961	-
Australian R&D tax incentive		446	631
Gains on financial assets measured at fair value through profit or loss	9	-	9,482
Total income		15,169	10,160
Research and development costs		(6,101)	(5,136)
Corporate and administrative costs		(2,074)	(1,568)
Losses on financial assets measured at fair value through profit or loss	9	(3,921)	-
Foreign exchange loss		-	(168)
Profit before income tax		3,073	3,288
Income tax	5	-	-
Profit after income tax		3,073	3,288
Other comprehensive expense, net of tax			
Amounts which may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(58)	34
Total comprehensive income for the year		3,015	3,322
Profit after tax attributable to Equity holders of the company:		3,073	3,288
Total comprehensive profit attributable to Equity holders of the company:		3,015	3,322
Basic earnings per share	6	$0.031	$0.036
Diluted earnings per share	6	$0.031	$0.035

The notes on pages 10 to 25 form part of these financial statements

Neuren Pharmaceuticals Limited

Consolidated Statement of Financial Position
as at 31 December 2018

	Note	2018 $'000	2017 $'000
ASSETS			
Current Assets:			
Cash and cash equivalents	7	23,576	4,706
Trade and other receivables	8	942	692
Financial assets measured at fair value through profit or loss	9	2,121	10,688
Total current assets		26,639	16,086
Non-current assets:			
Property, plant and equipment		2	7
Intangible assets		1	73
Financial assets measured at fair value through profit or loss	9	-	1,778
Total non-current assets		3	1,858
TOTAL ASSETS		26,642	17,944
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables	10	1,973	1,580
Total current liabilities		1,973	1,580
Total liabilities		1,973	1,580
EQUITY			
Share capital	11	126,426	121,136
Other reserves		(8,497)	(7,332)
Accumulated deficit		(93,260)	(97,440)
Total equity attributable to equity holders		24,669	16,364
TOTAL LIABILITIES AND EQUITY		26,642	17,944

The notes on pages 10 to 25 form part of these financial statements

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Share Capital	Share Option Reserve	Currency Translation Reserve	Accumulated Deficit	Total Equity
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Equity as at 1 January 2017	112,829	2,841	(10,659)	(100,828)	4,183
Shares issued in private placement	8,351				8,351
Share issue costs expensed	(44)				(44)
Share based payments		552			552
Transfer on exercise of options		(100)		100	-
Transactions with owners	8,307	452		100	8,859
Profit after income tax				3,288	3,288
Other comprehensive expense			34		34
Total Comprehensive income for the year			34	3,288	3,322
Equity as at 31 December 2017	**121,136**	**3,293**	**(10,625)**	**(97,440)**	**16,364**
Shares issued in private placement	5,306				5,306
Share issue costs expensed	(16)				(16)
Transfer on exercise of options		(1,107)		1,107	-
Transactions with owners	5,290	(1,107)		1,107	5,290
Profit after income tax				3,073	3,073
Other comprehensive expense			(58)		(58)
Total Comprehensive income for the year			(58)	3,073	3,015
Equity as at 31 December 2018	**126,426**	**2,186**	**(10,683)**	**(93,260)**	**24,669**

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	2018 $'000	2017 $'000
Cash flows from operating activities:		
Receipts from licence agreement	13,544	-
Receipts from Australian R&D Tax Incentive	631	981
Interest received	165	49
GST refunded	95	70
Payments for employees and directors	(1,909)	(1,494)
Payments to other suppliers	(6,118)	(5,196)
Net cash flow (to) / from operating activities	6,408	(5,590)
Cash flows from financing activities:		
Proceeds from the issue of shares	11,730	5,367
Payment of share issue expenses	(16)	(44)
Net cash provided from financing activities	11,714	5,323
Net increase / (decrease) in cash	18,122	(267)
Effect of exchange rate changes on cash balances	748	(78)
Cash and cash equivalents at the beginning of the year	4,706	5,051
Cash and cash equivalents at the end of the year	23,576	4,706
Reconciliation with profit after income tax:		
Profit after income tax	3,073	3,288
Non-cash items requiring adjustment:		
Depreciation of property, plant and equipment	5	6
Amortisation of intangible assets	72	72
Share based payment expense	-	552
Foreign exchange (gain) / loss	(806)	111
Loss / (gain) on financial assets	3,921	(9,482)
Changes in working capital:		
Trade and other receivables	(250)	310
Trade and other payables	393	(447)
Net cash flow from operating activities	6,408	(5,590)

The notes on pages 10 to 25 form part of these financial statements

1. Nature of business

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 27 February 2019.

Inherent Uncertainties

- 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's revenue from licence agreements is contingent on future events and will be intermittent until product sales commence. The Company's business plan therefore may require expenditure in excess of revenue and in the future the Company may need to raise further financing through other public or private equity financings, collaborations or other arrangements with corporate sources, or other sources of financing to fund operations. There can be no assurance that such additional financing, if available, can be obtained on terms reasonable to the Company.

- The Company entered a Sharing Agreement with Lanstead Capital LP as a part of the capital raising completed in July 2017, under which the Company receives 18 settlements calculated with reference to both the volume weighted average price at which Neuren's shares are traded during the 20 days prior to each settlement (VWAP), and a rate of return which effectively results in a discount to the VWAP. Movements in the share price could materially impact the fair value of the 6 monthly instalments that remained outstanding at 31 December 2018 and the cash amounts received from those instalments (Refer Note 9).

2. Summary of significant accounting policies

These general-purpose consolidated financial statements of the Group are for the year ended 31 December 2018 and have been prepared in accordance with and comply with generally accepted accounting practice in New Zealand (GAAP), New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) which comply with International Financial Reporting Standards, the requirements of the Financial Markets Conduct Act 2013, and other applicable Financial Reporting Standards as appropriate for profit-oriented entities that fall into Tier 1 as determined by the New Zealand Accounting Standards Board.

(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 2018 and the results of all subsidiaries for the year then ended. Neuren Pharmaceuticals Limited and its subsidiaries, which are designated as profit-oriented entities for financial reporting purposes, together are referred to in these financial statements as the Group.

Statutory Base

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

Historical cost convention

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

Critical accounting estimates

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

Going concern basis

The directors monitor the Group's cash position and initiatives to ensure that adequate funding continues to be available for the Group to meet its business objectives. The Group recorded operating cash inflow of $6.4 million for the year ended 31 December 2018 and had net assets at 31 December 2018 of $24.7 million, including cash balances of $23.6 million and fair value of the outstanding cash settlements due from Lanstead Capital of $2.1m. The amounts of the settlements from Lanstead have a dependency on the Company's share price, as described in Note 9.

It is the considered view of the Directors that the Group will have access to adequate resources to meet its ongoing obligations for at least a period of 12 months from the date of signing these financial statements. On this basis, the Directors have assessed it is appropriate to adopt the going concern basis in preparing its financial statements. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

Changes in accounting policies
Implementation of NZ IFRS15: Revenue from contracts
NZ IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to NZ IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'NZ IFRS 15') replace NZ IAS 18 'Revenue', NZ IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new Standard has not been applied retrospectively and no restatement to comparative numbers made. There are no adjustments to retained earnings at 1 January 2018 from the implementation of this standard.

Implementation of NZ IFRS9: Financial instruments
NZ IFRS 9 replaces NZ IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets. When adopting NZ IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. There have been no differences arising from the adoption of IFRS9 in relation to classification, measurement, and impairment.
There have also been no financial instruments which have been assigned a new category on transition.

There is no significant impact of changes in accounting policies for the year ended 31 December 2018.
Standards, interpretations and amendments to published standards that are not yet effective
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for later periods and which the Group has not adopted early. None are expected to impact the Group.

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

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

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

(c) 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.

(d) Revenue
Revenue arises mainly from grants received and interest. In the current reporting period Licence revenue was recognised in relation to the partnering agreement signed with Acadia.
Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Grants
Grants received are recognised in the profit or loss within 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.

Revenue from Licence agreements
The revenue from the Acadia license agreement is a Phase II reimbursement fee and has been recognised as a separate performance obligation as it is distinct from all the other obligations within the Acadia licensing agreement. The revenue from this performance obligation has therefore been recognised at a point in time when Neuren had transferred its intellectual property to Arcadia and Neuren had an enforceable right to receive payment.

(e) 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.

(f) Income tax
The income tax expense for the period is the tax payable on the period's taxable income or loss using tax rates enacted or substantively enacted at the reporting 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 reporting 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.

(g) 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.

(h) Impairment of non-financial assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. All non-financial assets are also reviewed whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The carrying amount of a long-lived asset is considered impaired when the recoverable amount from such asset is less than its carrying value. In that event, a loss is recognised in the Statement

of Comprehensive Income based on the amount by which the carrying amount exceeds the fair value less costs of disposal and value in use of the long-lived asset. Fair market value is determined using the anticipated cash flows discounted at a rate commensurate with the risk involved.

(i) 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.

(j) 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.

(k) Trade and other receivables
The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

(l) 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 Group 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

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

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

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

(n) 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 a loan funded share plan and equity performance rights plan. Both plans are accounted for as share options. 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 reporting date, except for options that are subject to a market condition for vesting, the Company revises its estimates of the number of options that are expected to vest and become exercisable. It recognises the impact of the revision of original estimates, if any, in the Statement of Comprehensive Income, and a corresponding adjustment to equity over the remaining vesting period.

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

(o) 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.

(p) Financial instruments

Recognition and derecognition
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.
Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.
A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets
Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with NZ IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:
• amortised cost
• fair value through profit or loss (FVTPL)
• fair value through other comprehensive income (FVOCI).
In the periods presented the corporation does not have any financial assets categorised as FVOCI.

The classification is determined by both:
• the entity's business model for managing the financial asset
• the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Subsequent measurement of financial assets

Financial assets at amortised cost
Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):
• they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
• the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method.
Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

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

3. Segment information
The Group operates as a single operating segment and internal management reporting systems present financial information as a single segment. The segment derives its revenue and incurs expenses through the development of pharmaceutical products. Grant income arises from the Australian R&D Tax Incentive and revenue from licence agreements is derived from the United States. The Board of the Company has been identified as the chief operating decision maker. The Board assesses the financial performance and position of the group, and makes strategic decisions.

4. Expenses

	2018 $'000	2017 $'000
Loss before income tax includes the following expenses:		
Depreciation – property, plant and equipment		
Computer equipment	4	4
Fixtures and fittings	1	2
Total depreciation	5	6
Amortisation – intangible assets		
Intellectual property	73	71
Software	-	1
Total amortisation	73	72
Remuneration of auditors		
Audit and review of financial statements (PwC)	67	59
Audit and review of financial statements (Grant Thornton NZ)	59	
Advisory services (Grant Thornton Australia - member firm)	15	-
Total remuneration of auditors	141	59
Employee benefits expense		
Short-term benefits	1,104	1,240
Share based payments	-	552
Total employee benefits expense	1,104	1,792
Directors' compensation		
Short-term benefits	1,008	946
Total Directors' compensation	1,008	946
Lease expense	3	27
Foreign exchange loss on fair value of forward contracts	-	46

5. Income tax

	2018 $'000	2017 $'000
Income tax		
Current tax	-	-
Deferred tax	-	-
	-	-
Numerical reconciliation of income tax to prima facie tax receivable:		
Profit before income tax	3,073	3,288
Tax at applicable rates	845	904
Non-taxable Australian R&D Tax Incentive income	(123)	(174)
Non deductible expenses for R&D incentive	282	399
Non deductible share option expenses	-	152
Non-taxable loss / (gain) in fair value of equity derivative	1,806	(2,476)
Utilisation of previously unrecognised tax losses	(2,710)	-
Deductible temporary differences and tax losses for which no deferred tax asset was recognised	(100)	1,195
Income tax benefit	**-**	**-**
Gross tax losses for which no deferred tax asset has been recognised (a)	88,914	95,902

(a) Of these gross tax losses, $63.9 million relates to New Zealand tax losses, which are unlikely to be utilised unless future taxable income is generated in New Zealand.

6. Earnings per share

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

	2018	2017
Profit after income tax attributable to equity holders (basic) ($'000)	3,073	3,288
Weighted average shares outstanding (basic) (No.)	99, 038,854	91,960,841
Basic earnings per share	$0.031	$0.036
Profit after income tax attributable to equity holders (diluted) ($'000)	3,073	3,288
Weighted average shares outstanding (diluted) (No.)	99,751,382	93,029,924
Diluted earnings per share	$0.031	$0.035

7. Cash and cash Equivalents

	2018 $'000	2017 $'000
Cash	3,738	1,736
Demand and short-term deposits	19,838	2,970
	23,576	4,706

8. Trade and other receivables

	2018 $'000	2017 $'000
Trade receivables	423	44
Other receivables	16	14
Interest receivables	57	3
Australian R&D tax incentive	446	631
	942	692

The Group applies the NZIFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.
In measuring the expected credit losses, the trade receivables have been assessed on an individual basis due to the limited number of receivables.
The expected loss rates are based on the payment profile of the individual receivable and other transactions with that debtor over the past 12 months before 31 December 2018 as well as the corresponding historical credit losses during that period.

Trade receivables are written off (i.e. de-recognised) when there is no reasonable expectation of recovery. Failure to make payments within 180 days from the invoice date and failure to engage with the Group on alternative payment arrangements amongst others are considered indicators of no reasonable expectation of recovery. No credit losses have been determined for the current year (2017: nil).

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

	2018 $'000	2017 $'000
Current		
Equity derivative	2,121	10,688
Non-Current		
Equity derivative	-	1,778
Total	2,121	12,466

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

	2018 $'000	2017 $'000
Initial recognition of equity derivative	-	5,351
Opening fair value	12,466	-
Cash settlements received	(6,424)	(2,367)
Net (loss) / gain through profit or loss	(3,921)	9,482
Closing fair value	2,121	12,466

Financial instruments classified under the equity swap arrangement are measured at fair value using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. These financial assets are classified as level 2. Fair value calculations are based on a discounted cash flow model.

In July 2017, Neuren completed a placement of new ordinary shares, the subscribers for which included Lanstead Capital. Neuren entered into a Sharing Agreement with Lanstead Capital, under which Neuren's economic interest was an equity derivative, determined and payable in 18 cash settlements commencing in September 2017. In August 2018 Neuren agreed with Lanstead to pause for 120 days the monthly settlements, which means that 8 settlements were received in 2018 and the final monthly settlement, which was originally due in February 2019 will now be calculated and received in June 2019. Therefore 6 settlements remained outstanding at 31 December 2018.

The calculation of each monthly settlement is dependent upon the volume weighted average price at which Neuren's shares are traded during the 20 days prior to settlement (VWAP). If the VWAP for each settlement is equal to $1.77 per share (Benchmark Price), Neuren receives $472,222 (one eighteenth of $8.5 million). For each settlement, if the VWAP is higher than the Benchmark Price, Neuren receives proportionately more than $472,222 and if the VWAP is lower than the Benchmark Price, Neuren receives proportionately less than $472,222. Should the Company's share price drop significantly, the cumulative remaining settlement amount could reduce to zero. $6.4 million was received from the 8 settlements in 2018 (compared with $3.8 million that would have been received if the VWAP had been the Benchmark Price).

The key assumption for the calculation of the fair value of the equity derivative is the estimated VWAP applicable to each settlement. For the fair value on recognition, the VWAP was assumed to be $1.22 per share, which was the lowest traded price of Neuren's shares on 17 July 2017. For the fair value at 31 December 2018, the VWAP was assumed to be $1.40 per share which was the closing price on 31 December 2018. (31 December 2017 : $3.12 per share, which was the lowest traded price of Neuren's shares on 29 December 2017). The fair value calculations were adjusted to reflect the time value of money and the estimated credit risk associated with the counterparty.

A sensitivity analysis of the fair value at 31 December 2018 for different VWAP assumptions within a reasonably possible range is presented in the following table:

2018 Assumed VWAP ($)	Fair value ($m)
1.0	1.4
1.5	2.3
2.0	3.2

10. Trade and other payables

	2018 $'000	2017 $'000
Trade payables	1,335	723
Accruals	83	265
Employee Benefits	555	592
	1,973	1,580

Trade payables and accruals relate to operating expenses, primarily research and development expenses. Trade payables comprise amounts invoiced prior to the reporting date and accruals comprise the value of work done but not invoiced at each reporting date.

11. Share Capital

	2018 Shares	2017 Shares	2018 $'000	2017 $'000
Issued Share Capital				
Ordinary shares on issue at beginning of year	101,840,020	1,841,929,015	121,136	112,829
Shares issued on exercise of Equity Performance Rights	-	1,308,901	-	-
Shares bought back under Loan Funded Share Plan	(501,607)	-	-	-
Shares issued in private placement	1,330,000	193,548,389	5,306	8,351
Share issue expenses - cash issue costs	-	-	(16)	(44)
	102,668,413	2,036,786,305	126,426	121,136
Share Consolidation	-	(1,934,946,285)	-	-
	102,668,413	101,840,020	126,426	121,136

In May 2018 Neuren issued 1,330,000 ordinary shares at A$4.00 per share, which was a premium of approximately 33% over the 10-day volume-weighted average share price, under the terms of an Exclusivity Deed that provided for exclusive negotiations with ACADIA Pharmaceuticals for a period of 3 months.

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

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

At 31 December 2018 and 31 December 2017, 2.5 million ordinary shares were held as treasury stock in respect of the Loan Funded Share Plan described in section (a) below.

Ordinary Shares

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

Share based payments

Neuren has operated 3 equity-settled share based payment plans; a share option plan, a loan funded share plan and an equity performance rights plan.

No securities were issued under any of these plans in 2018 or 2017. At 31 December 2017, all services required for the instruments issued under share based payment plans had been received.

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

	2018 $'000	2017 $'000
Loan funded shares	-	532
Equity performance rights	-	20
Total	**-**	**552**

(a) 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. On request by the participant, the Company may dispose of, or buy back, vested shares and utilise the proceeds to settle the outstanding loan. The directors may apply vesting conditions to be satisfied before the shares can be transferred to the Participant. Before the loan can be given, the New Zealand Companies Act requires the Company to disclose to shareholders the provision of financial assistance to the Participant. The maximum loan term is 5 years.

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

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

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

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

	Loan Funded Shares	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price
Outstanding at 1 January 2017	90,000,000	$0.066	-	
Share consolidation	(85,500,000)			
Outstanding at 31 December 2017	4,500,000	$1.32	2,000,000	$0.78
Exercised	(2,000,000)	$0.78	(2,000,000)	$0.78
Outstanding at 31 December 2018	2,500,000	$1.76	-	

The exercise prices for the outstanding loan funded shares are $1.84 per share in respect of 1.5 million shares and $1.64 per share in respect of 1 million shares.

On 30 May 2018 the Company bought back 501,607 ordinary shares from Neuren Trustee Limited at the volume weighted average price for the 5 days ended 29 May 2018 in order to settle the outstanding loan of $1,560,000 relating to 2,000,000 vested Loan Funded Shares held in trust pending repayment of the loan. The remaining 1,498,393 shares were transferred from Neuren Trustee Limited to the participant.

In 2018 the directors deferred making a determination on the vesting conditions in respect of 2.5 million Loan Funded Shares until 31 March 2019, or an earlier date determined by the directors. In 2017 the directors deferred making a determination on the vesting conditions in respect of 2.5 million Loan Funded Shares until 1 September 2018, or an earlier date determined by the directors.

(b) Equity Performance Rights

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

Movements in the number of EPR were as follows:

	EPR	Weighted Average Exercise Price	Weighted Average Share Price on exercise	Exercisable	Weighted Average Exercise Price
Outstanding at 1 January 2017	1,308,901	nil		1,308,901	nil
Exercised	(1,308,901)	nil	$0.610		
Outstanding at 31 December 2017	-	nil		-	
Outstanding at 31 December 2018	-	nil		-	

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
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
Neuren Pharmaceuticals (Australia) Pty Ltd	9-Nov-06	Dormant	100%	AUS
Neuren Trustee Limited	29-May-13	Holds loan funded shares	100%	NZ

All subsidiaries have a reporting date of 31 December.

13. Commitments and contingencies

(a) Operating leases

There were no aggregate future non-cancellable minimum lease payments for premises committed to by the Group, but not recognised in the financial statements as at 31 December 2018 or 31 December 2017.

(b) Legal claims

The Group had no significant legal matter contingencies as at 31 December 2018 or at 31 December 2017.

(c) Commitments

The Group was not committed to the purchase of any property, plant or equipment or intangible assets as at 31 December 2018 (2017: nil).

At 31 December 2018, the Group had commitments under contracts for the manufacture and development of trofinetide amounting to approximately 4.5 million Euros and approximately 0.3 million US dollars (2017: nil).

In addition, the Company has entered into agreements with ACADIA Pharmaceuticals under which ACADIA provides cash funding to Neuren to match Neuren's commitments under further contracts for the manufacture and development of trofinetide. At 31 December 2018 such commitments amounted to approximately 2.6 million Euros and approximately 0.3 million US dollars, matched by rights to receive the same amounts of cash from ACADIA.

(d) Contingent liabilities

The Group had no contingent liabilities at 31 December 2018 or at 31 December 2017 that require disclosure.

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:

	2018 $'000	2017 $'000
Short-term benefits	1,867	1,814
Post-employment benefits	60	60
Share based payment compensation	-	552
	1,927	2,426

On 30 May 2018 the Company bought back 501,607 ordinary shares from Neuren Trustee Limited at the volume weighted average price for the 5 days ended 29 May 2018 in order to settle the outstanding loan of $1,560,000 relating to 2,000,000 vested Loan Funded Shares held in trust for KMP pending repayment of the loan. The remaining 1,498,393 shares were transferred from Neuren Trustee Limited to KMP.

During the year ended 31 December 2017, 1,308,901 ordinary shares were issued to KMP, following vesting of Equity Performance Rights.

(b) Subsidiaries

The ultimate parent company in the Group is Neuren Pharmaceuticals Limited ("Parent"). The Parent funds the activities of the subsidiaries throughout the year as needed. Interests in and amounts due from subsidiaries are set out in note 12. All amounts due between entities in the Group are payable on demand and bear no interest.

15. Events after reporting date

As at the date of these financial statements authorised for issue, there were no events arising since 31 December 2018 that require disclosure.

16. Financial instruments and risk management

(a) Categories of financial instruments

		At amortised cost		At fair value through profit or loss	
Financial assets		Floating Interest Rate	Non-Interest Bearing	Non-Interest Bearing	Total
2018		$'000	$'000	$'000	$'000
Cash and cash equivalents	7	23,576	-	-	23,576
Trade and other receivables	8	-	942	-	942
Equity derivative	9	-	-	2,121	2,121
Total financial assets		23,576	942	2,121	26,639
2017					
Cash and cash equivalents	7	4,706	-	-	4,706
Trade and other receivables	8	-	692	-	692
Equity derivative	9	-	-	12,466	12,466
Total financial assets		4,706	692	12,466	17,864

Financial liabilities		**2018**	**2017**
Amortised cost - Non-Interest Bearing:		**$'000**	**$'000**
Trade and other payables		1,973	1,580
Total financial liabilities	10	1,973	1,580

At 31 December 2018, the reporting value of all financial instruments approximated to the fair value. These categories used above are consistent for both IAS39 and IFRS9.

(b) Risk management

The Group is subject to a number of financial risks which arise as a result of its activities.

Market risk

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

Equity price risk

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

Currency risk

During the normal course of business the Group enters 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 rates between the Australian dollar, the US dollar and the EURO. The Group holds cash denominated in US dollars, Australian dollars and Euro and has material expenditure in each of these currencies. Where possible, the Group matches foreign currency income and expenditure as a natural hedge. When foreign currency expenditure exceeds revenue, the group purchases foreign currency to meet future anticipated requirements under spot and forward contracts. The Group does not designate formal hedges. At 31 December 2018, there were no forward contracts outstanding.

During the year, the US dollar and Euro fluctuated against the Australian dollar. A foreign exchange gain of $961,000 is included in results for the year ended 31 December 2018 (2017: loss $168,000). The majority of the gain relates to gains on the fair value movement for reporting purposes of the Company's US dollar and EURO denominated cash reserves into Australian dollars.

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

	2018 $'000	2017 $'000
Assets		
US dollars	15,818	631
EURO	2,556	-
Liabilities		
US dollars	572	112
EURO	824	527

An increase of 10% in the cross rate of the US dollar against the Australian dollar as at the reporting date would have decreased the consolidated profit after income tax by $1,386,000 (2017: $47,000). A decrease of 10% in the cross rate of the US dollar against the Australian dollar as at the reporting date would have increased the consolidated profit after income tax by $1,694,000 (2017: $58,000).

An increase of 10% in the cross rate of the Euro against the Australian dollar as at the reporting date would have decreased the consolidated profit after income tax by $157,000 and increased it by $48,000 in 2017. A decrease of 10% in the cross rate of the Euro against the Australian dollar as at the reporting date would have increased the consolidated profit after income tax by $192,000 and decreased it by $59,000 in 2017.

Interest rate risk
The Group is 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:

	2018 $'000	2017 $'000
Financial Assets		
Cash and cash equivalents		
Australian dollar cash deposits	5,625	4,075
Australian dollar interest rate	2. 46%	1.94%
US dollar cash deposits	15,800	631
US dollar interest rate	2.32%	0.00%
EURO cash deposits	2,150	-
EURO interest rate	0.00%	-

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 $22,000 (2017:$5,000).

Credit risk
The Group incurs credit risk from transactions with financial institutions. The total credit risk on an equity derivative (as described in note 9 above) and cash and cash equivalents, which have been recognised in the statement of financial position, is the carrying amount. The Company and its subsidiaries do not retain any collateral or security to support transactions with financial institutions. Cash and cash equivalents are held and transacted with National Australia Bank, Western Union and Sonabank. The equity derivative counterparty is Lanstead Capital L.P. The estimated credit risk associated with the unsecured equity derivative has been considered in the estimation of the fair value of the equity derivative, as described in note 9.

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

Capital risk
The Company manages its capital, which is its equity, to ensure that the Group entities are able to meet their estimated commitments as they fall due. In this regard, the Company raised additional equity capital during 2018 and 2017, as described in note 11. Capital risk is impacted by the inherent uncertainties described in note 1.

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

The Group's research and development activities are eligible under the Australian R&D tax incentive. The Group has assessed these activities and expenditure to determine which are likely to be eligible under the incentive scheme. For the period to 31 December 2018 the Group has recorded other income of $0.4 million (2017: $0.6 million).

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

The fair value of the equity derivative described in note 9 is dependent on an estimate of the 20 day VWAP each month over 6 months. Differences in the actual VWAP compared to the estimate may cause a material difference in the fair value.

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

Additional Information

Equity Securities Held by Directors as at 27 February 2019

	Interests in Ordinary Shares	
Director	**Direct**	**Indirect**
Richard Treagus	1,979,163	105,517
Trevor Scott	1,000,000	2,989,784
Dianne Angus	-	-
Patrick Davies	-	69,646
Jenny Harry	-	14,084

Directors of subsidiary companies at 31 December 2018

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

Australian Stock Exchange Disclosures

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

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

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

Independent Auditor's Report

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To the Shareholders of Neuren Pharmaceuticals Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Neuren Pharmaceuticals Limited (the Company) and its subsidiaries (the Group) on pages 5 to 25 which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) issued by the New Zealand Audit and Assurance Standards Board. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our firm carries out review procedures over the interim financial statements and financial advisory services of the Group. The provision of these services has not impaired our independence as the independent auditor of the Group.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 29 March 2018

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. 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.

Why the matter is significant	How our audit addressed the key audit matter
The Company entered into a Sharing Agreement with Lanstead Capital L.P. as part of a capital raising. Under the arrangement the Company would receive 18 monthly settlements. At 31 December 2018 there were still six settlements outstanding. (2017: 14) The arrangement gives rise to a financial asset being receivable with an embedded derivative. The Company has elected to measure the whole instrument at fair value through profit or loss. At 31 December 2018 the value of the derivative is \$2.12m (2017: \$12.466m) (Refer note 9). The fair value of the instrument has been valued using valuation techniques that are subject to management estimation and judgements and therefore could materially influence the determination of the fair value at the end of each reporting period.	We obtained an understanding of the arrangement by reviewing the key contracts, accounting treatment applied and valuation methodology utilised. We considered the appropriateness of the accounting treatment adopted with reference to the requirements set out in the accounting standards. Our internal valuation experts evaluated the appropriateness of the methodology and inputs applied for the derivative. We independently recalculated the fair value of the derivative and compared it to what is reflected in the financial statements. We challenged the key assumptions applied by management and agreed the underlying data to contracts or other supporting documentation. The appropriateness of the disclosures in the financial statements in relation to the arrangement were considered for completeness and accuracy.

Other Information

The Directors are responsible for the other information. The other information comprises the Director's report and information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. We obtained the Director's report prior to the date of this auditor's report. The Annual report is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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.

Directors' responsibilities for the Consolidated Financial Statements

The Directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards issued by the New Zealand Accounting Standards Board, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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) 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 consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the External Reporting Board's website at https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

Restriction on use of our report

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders, as a body 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 its shareholders, as a body, for our audit work, for this report or for the opinion we have formed.

Grant Thornton New Zealand Audit Partnership

Grant Thornton

Kerry Price
Partner
Auckland

27 February 2019