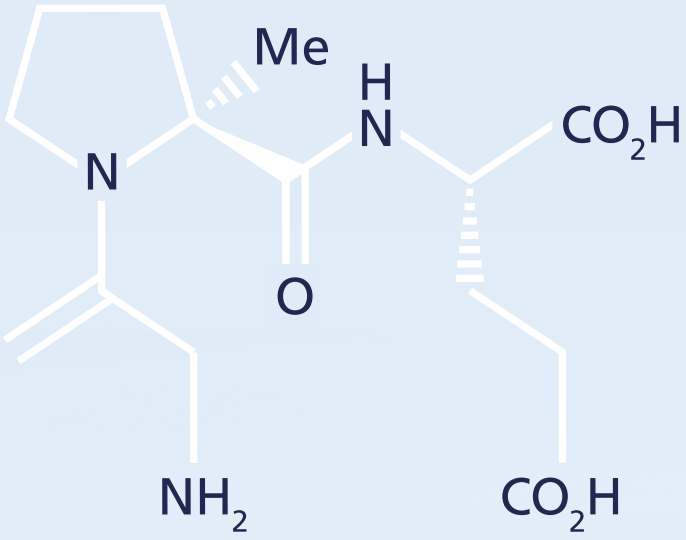
neuren

pharmaceuticals



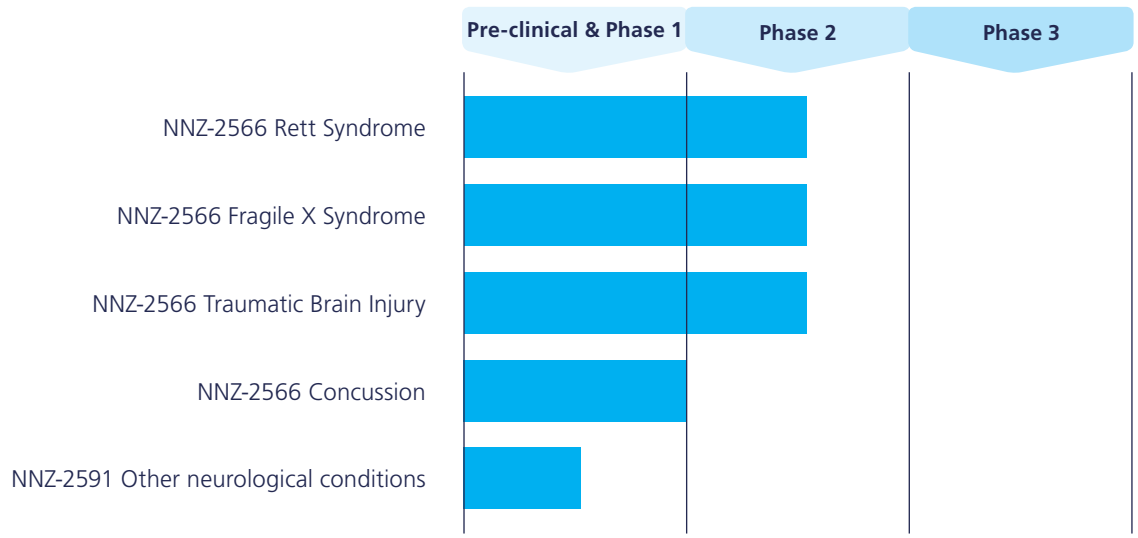
Neuren Pharmaceuticals Limited

Annual Report 2013

Company Snapshot

Neuren Pharmaceuticals (ASX: NEU) is a biopharmaceutical company focusing on the development of new therapies for brain injury, neurodevelopmental and neurodegenerative disorders.

Product Development Pipeline



Expected Trial Timelines

Study	Complete enrolment	Top-line results
Rett Syndrome	H1 2014	H2 2014
Fragile X Syndrome	H2 2014	H1 2015
Intrepid	H2 2014	H1 2015
Concussion	H1 2015	H2 2015

2013 Achievements

Strategy

- Therapeutic focus of NNZ-2566 and NNZ-2591 expanded from acute brain injury to chronic neurological conditions
- Placement and Share Purchase Plan raised A$23 million to fund four Phase 2 trials through to completion
- Leadership team reorganised and strengthened; corporate office moved from New Zealand to Melbourne, Australia

NNZ-2566 in Rett Syndrome

- Phase 2 trial commenced in the US in April 2013 – on track to report results in H2 2014
- Fast Track designation received from the US Food and Drug Administration (FDA)

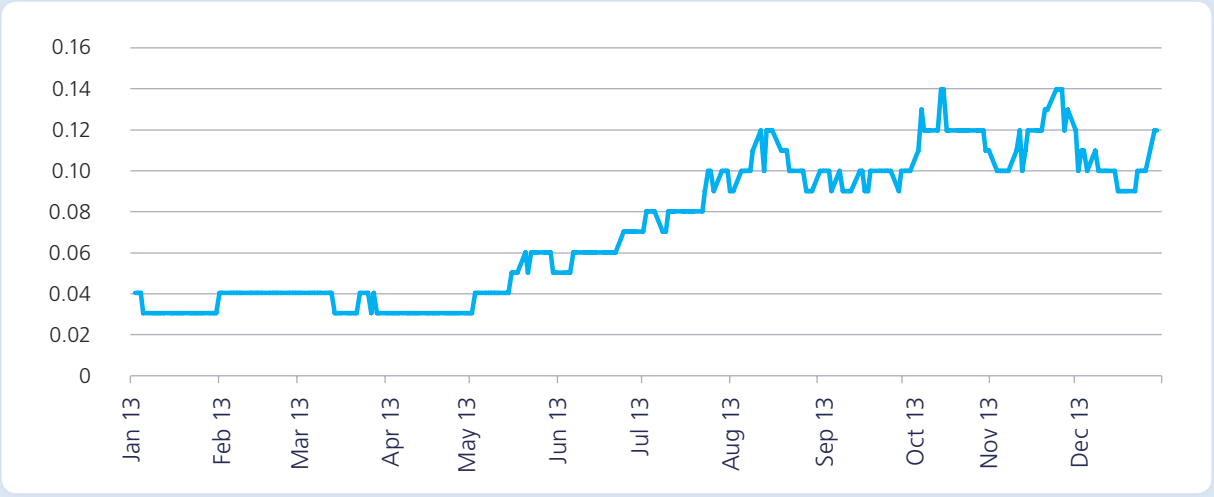
NNZ-2566 in Fragile X Syndrome

- Phase 2 trial commenced in the US in January 2014 – results expected in H1 2015
- Fast Track and Orphan Drug designation received from FDA
- Second drug molecule, NNZ-2591, shown to normalise Fragile X characteristics in validated pre-clinical model

Intellectual Property

- US Patent and Trademark Office issued two new patents covering NNZ-2566 and one new patent covering NNZ-2591

Neuren share price in 2013 (A$)



Contents

The Board of Directors is pleased to present the Annual Report of Neuren Pharmaceuticals Limited for the year ended 31 December 2013, authorised on 26 March 2014

For, and on behalf of, the Board

Dr Richard Treagus
Chairman

Dr Trevor Scott
Director

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Chairman's Letter

In my Chairman's Address at the Annual General Meeting on 20 May 2013, I outlined a path towards maximising our prospects of success and delivering value back to our shareholders.

I am pleased to report the subsequent progress that we have made along that path.

Neuren closed 2013 in a strong financial position after executing a successful capital raising in October 2013. We were pleased that strong support from both new and existing shareholders enabled Neuren to raise new capital of A$23 million at 11.5 cents per share. As well as being fully funded to completion of our four Phase 2 trials, we now have a significant institutional presence on our share register, representing Australia, New Zealand, Hong Kong and the UK.

In the second half of 2013, Neuren was reorganised to ensure the optimum structure and human resources are in place to execute our strategy. The corporate office was relocated from Auckland to Melbourne and from 1 January 2014 we will report our financials in Australian dollars rather than New Zealand dollars. The number of directors was reduced, resulting in a smaller, more efficient and highly engaged board. The management team was reorganised and additional skills recruited. Neuren's leadership team has extensive experience in the international pharmaceutical industry, including commercial partnering transactions, late-stage product development and scientific research. We believe that experience will be invaluable as we execute our plan and manage risks throughout 2014 and 2015.

2014 will see some very important milestones for NNZ-2566. Our third Phase 2 trial (in Fragile X Syndrome) commenced in January and our fourth (in Concussion) will start in the first half of the year. In the second half we will report the results from our trial in Rett Syndrome, which is keenly awaited by all stakeholders. In parallel we will continue to progress optimisation of the NNZ-2566 manufacturing process for commercial supply and seek further evidence of the potential commercial value of NNZ-2591 in neurological conditions.

On behalf of the Board, I wish to thank you for your support through 2013. We look forward to making further progress in 2014 towards realising the value of NNZ-2566 for patients and our shareholders.

Dr Richard Treagus
Chairman

Operating Review

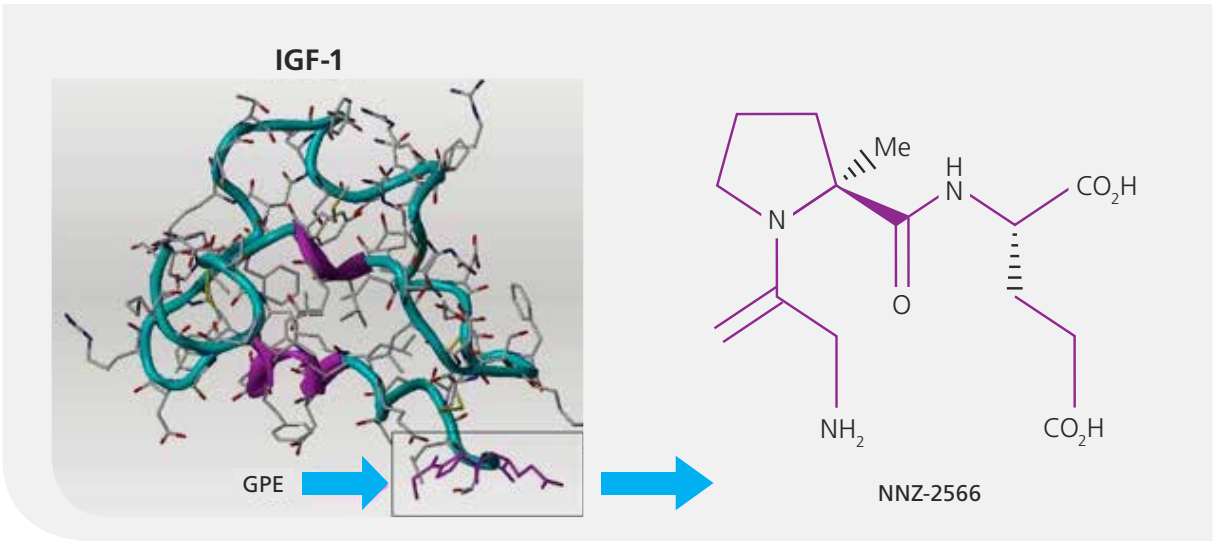
Neuren's strategy

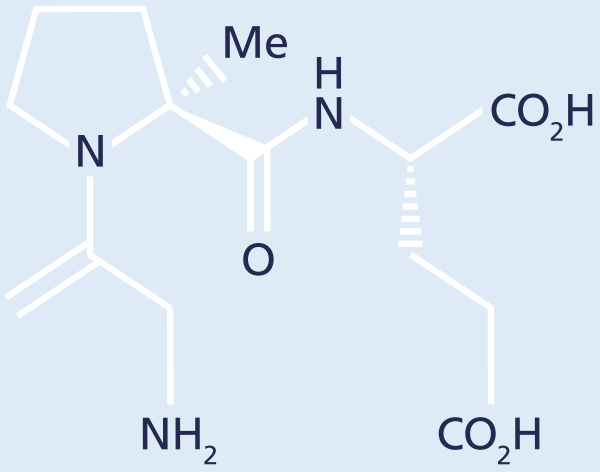
Neuren's strategy is designed to increase the value of its key assets, NNZ-2566 and NNZ-2591, by extending the therapeutic focus from acute brain injury to chronic neurological conditions requiring longer term dosing. The Company's focus emphasises product development opportunities with five crucial attributes: strong scientific rationale, significant unmet medical need, compelling market opportunity, favourable regulatory treatment with a clear path to approval, and potential for development for additional conditions.

In October 2013, Neuren successfully completed a placement of new shares to institutional and sophisticated investors, which, together with a Share Purchase Plan for existing shareholders, provided funds of A$23 million. These funds ensure that four Phase 2 trials of NNZ-2566 in Rett Syndrome, Fragile X Syndrome, moderate to severe Traumatic Brain Injury (TBI) and Concussion are all fully funded through to completion in 2014 and 2015.

Currently there are no drugs approved for any of these conditions and there are few drugs in clinical development. Some drugs that are approved for other conditions are also used to treat selected symptoms, but none are more than modestly effective and none are disease-modifying. NNZ-2566 provides an opportunity potentially to be the first approved therapy for one or more of these important indications. Rett Syndrome and Fragile X Syndrome patients are cared for in specialty clinics. As a consequence, from a commercial point of view they are attractive, because a small number of readily identifiable physicians will represent the large majority of prescribers in each of these conditions.

As these are serious medical conditions with unmet need, drugs being developed to treat them may qualify for favourable regulatory pathways intended to expedite the development and approval of therapeutically important drugs. The US Food and Drug Administration (FDA) has granted Fast Track designation to Neuren for NNZ-2566 in Rett Syndrome, Fragile X Syndrome and moderate to severe TBI. Fast Track designation provides for early and frequent communication with the FDA, ensuring that questions and issues are resolved quickly to minimise any potential impact on the progress of development. The FDA has also granted orphan drug designation to Neuren for NNZ-2566 in Fragile X Syndrome and Neuren intends to seek orphan drug designation for Rett Syndrome after completing the current clinical trial. Orphan drug designation is a special status that the FDA may grant to a drug to treat a rare disease or condition. Orphan drug designation qualifies the sponsor of the drug for seven years of marketing exclusivity following approval, as well as various development incentives, including waiver of the prescription drug user fee for a marketing application. The Food and Drug Administration Safety and Innovation Act, which became effective in July 2012, incorporated a new provision enabling a sponsor to request "Breakthrough Therapy" designation based on preliminary clinical evidence that the drug may demonstrate substantial improvement over available therapies. Breakthrough Therapy designation conveys all of the Fast Track program features as well as more intensive FDA guidance on an efficient drug development program. Neuren believes that some of its NNZ-2566 development programs may be potential candidates for Breakthrough Therapy.





The science behind Neuren's products

Recent discoveries in neuroscience have strengthened our understanding of the contribution of two critical cellular processes to a wide range of acute and chronic conditions including brain injury, neurodevelopmental disorders and neurodegeneration. These processes are inflammation and the function of microglia, a type of brain cell central to the maintenance and repair of synapses, which are the connections through which signals pass between neurons. Inflammation, microglial dysfunction and deficits in synaptic function (referred to as synaptic plasticity) play a major role in the development and progression of many, if not most, brain disorders. These are precisely the processes targeted by NNZ-2566, Neuren's lead compound. In animal models, NNZ-2566 has been shown to significantly inhibit inflammation and microglial dysfunction and to improve synaptic plasticity with significant improvement of both cellular pathology and functional or behavioural outcomes.

The foundation of the unique biology of NNZ-2566 is based on IGF-1 and its derivatives. IGF-1 is one of the primary growth factors in the central nervous system and is essential for growth and development of the human brain. A small piece at the end of IGF-1 called Glypromate or, more formally (1-3)IGF-1, is a naturally occurring derivative of IGF-1 that has a central role in the brain's response to injury and stress. NNZ-2566 is a synthetic analogue of Glypromate, modified so that it has improved properties for development as a potential medicine and commercial product. NNZ-2566 is administered to patients by injection for moderate to severe TBI, or orally as a liquid for other conditions.

NNZ-2591 is a synthetic analogue of a naturally occurring neuropeptide, which has been shown to have neuroprotective and nootropic (memory enhancing) effects in multiple animal models. NNZ-2591 has excellent oral bioavailability and is currently being assessed as a clinical candidate for the treatment of chronic neurological disorders. In 2013 Neuren presented results from testing in a validated pre-clinical model of Fragile X Syndrome, in which NNZ-2591 was shown to reverse the differences between normal (wild-type) mice and fmr1 knockout mice, normalising known Fragile X anatomical, behavioural and biochemical characteristics.

Operating Review

continued

Neuren's product development programs for NNZ-2566

Rett Syndrome

Rett Syndrome is a neurological disorder that occurs almost exclusively in females following apparently normal development for the first six months of life. Typically, between 6 to 18 months of age, patients experience a period of rapid decline with loss of purposeful hand use and spoken communication. Many patients have recurrent seizures. They experience a variety of motor problems including increased muscle tone (spasticity) and abnormal movements. These individuals are never able to provide fully for their own needs, with most requiring life-long medical care and 24 hour a day supportive care as they grow older. Most Rett Syndrome patients live well into adulthood. In addition to direct costs for medical and related services – estimated to average more than US$20,000 per patient per year – costs for institutional and special education services as well as the financial and emotional impact on families are very large. It is a rare disorder and is believed to be second only to Down Syndrome as a genetically-determined cause of chronic neurological problems in females that include severe communication, motor disabilities and epilepsy. Rett Syndrome is caused by mutations on the X chromosome on a gene called MECP2. There are more than 200 different mutations found on the MECP2 gene that interfere with its ability to generate a normal gene product. Rett Syndrome strikes all racial and ethnic groups and occurs worldwide in approximately 1 in every 10,000 live female births.

The International Rett Syndrome Foundation (IRSF) has provided advice to Neuren on clinical trial strategy, introductions to leading clinical investigators and a $600,000 grant to cover part of the cost of Neuren's first Rett Syndrome trial. Support from an advocacy organisation such as IRSF in discussions with the FDA and communications with patients, families and investigators is an important factor assisting with the successful implementation of Neuren's development programs.

In April 2013, Neuren initiated a Phase 2 double-blind, placebo-controlled clinical trial of NNZ-2566 in Rett Syndrome. The trial is designed to assess the safety, tolerability and efficacy of NNZ-2566 in treating symptoms of Rett Syndrome. At least 48 female subjects will be enrolled and two dose-levels of NNZ-2566 versus placebo are being tested. As at 14 March 2014, 42 subjects had been enrolled in the trial. 33 of those subjects had completed treatment and no subjects had withdrawn from the trial. Enrolment is expected to be completed in the first half of 2014, with top-line results announced in the second half of 2014.

Fragile X Syndrome

Fragile X syndrome is the most common inherited cause of intellectual disability and the most common known cause of autism. It affects 1 out of 4000 males and 1 out of 6-8000 females. Fragile X Syndrome is due to a gene mutation on the X chromosome that impacts a protein responsible for regulating the synapses of nerve cells. Clinically, Fragile X Syndrome is characterized by intellectual handicap, hyperactivity and attention

problems, autistic symptoms, anxiety, emotional lability and epilepsy. Generally, males are more severely affected than females. Currently, there are no medicines approved for the treatment of Fragile X Syndrome.

Neuren's Phase 2 double-blind, placebo-controlled clinical trial of NNZ-2566 in Fragile X Syndrome commenced in January 2014. The trial aims to enrol approximately 60 male subjects at 6 sites in the United States. Enrolment is expected to be completed by the end of 2014, with top-line results announced in the first half of 2015. The trial is designed to assess the safety, tolerability and efficacy of NNZ-2566 in treating symptoms of Fragile X Syndrome.

Brain injury

Each year, approximately 1.7 million people sustain a traumatic brain injury (TBI) in the US alone. Of these, 25% are classified as moderate to severe while the remaining 75% are classified as mild TBI or concussion. TBI is a contributing factor in one-third of all injury-related deaths. Moderate to severe TBI frequently leave patients with profound physical, emotional and cognitive disabilities, often requiring life-long institutional or other supportive care. Concussion also can result in long-term or permanent impairments and disabilities. The direct medical costs and indirect costs of TBI are estimated to exceed US$48 billion per year in the US. The potential global market for TBI and concussion is estimated at more than $4 billion.

In animal models, NNZ-2566 has been shown to inhibit inflammatory cytokines, pathological microglial activation, apoptosis and necrosis, which are key features of the biology of TBI. As a result, it improves functional recovery, preserves cognitive function and inhibits post-injury seizures, addressing symptoms that are of primary concern in TBI patients Neuren's partnership with the US Army has made it feasible to target this challenging indication in which the only late-stage competition has been progesterone for moderate to severe TBI. Neuren is currently not aware of any commercial sponsor-led clinical trials in concussion.

Neuren's collaborative relationship with the US Army Medical Research & Materiel Command (USAMRMC) and the Walter Reed Army Institute of Research (WRAIR) began in 2004. WRAIR conducted much of the ground-breaking work to define the pharmacology and mechanisms of action of NNZ-2566, elaborating its effects on neuroinflammation and microglial activation as well as its effects in models of TBI and non-convulsive seizures. The USAMRMC also has provided regulatory support, technical advice and more than $26 million in non-dilutive grants to Neuren and its collaborators to support development of NNZ-2566 for TBI and concussion as well as development of the oral formulation. The majority of Neuren's direct third-party costs associated with clinical trials in moderate to severe TBI and concussion are being reimbursed through the grants.

Moderate to severe TBI trial

As at 14 March 2014, 137 subjects had been enrolled in Neuren's Phase 2 clinical trial ("INTREPID-2566") involving the intravenous dosage form of NNZ-2566 in moderate to severe TBI. The Intrepid trial aims to enrol 260 subjects. Two factors are expected to accelerate the future rate of subject enrolment. Firstly, Neuren is currently in the process of increasing the number of US trauma centres participating in the trial and secondly two large clinical studies that were directly competing for subjects at some of the trial sites have recently completed enrolment. Intrepid enrolment is forecast to be completed by the end of 2014 with top-line results reported in the first half of 2015.

Concussion trial

Preparations are continuing for a Phase 2 clinical trial of the oral dosage form of NNZ-2566 in concussion. In collaboration with the US Army, Neuren aims to enrol 132 subjects at Womack Army Medical Centre, Fort Bragg, North Carolina. The trial is expected to commence in the first half of 2014, complete enrolment in the first half of 2015 and report results in the second half of 2015.

Potential in additional neurological conditions

In large part because of the commonality of underlying pathologic processes, Neuren believes that a product which proves to be safe and effective in Rett Syndrome, Fragile X Syndrome, or TBI has good potential as a therapy in a wide range of other neurological disorders. NNZ-2566 and NNZ-2591 could be good candidates for other neurodevelopmental disorders such as Angelman Syndrome and idiopathic autism, or neurodegenerative disorders such as Parkinson's disease and multiple sclerosis.

US patents for NNZ-2566 and NNZ-2591

During 2013, the US Patent and Trademark Office issued three new patents covering:

- oral formulations of NNZ-2566,
- a method for treating a cognitive disorder or a memory disorder with NNZ-2566 and
- the use of NNZ-2591 for the treatment of peripheral neuropathy.

Operating Review

continued

NNZ-2566 is now covered by 8 issued US patents covering the composition, oral formulation and methods of use, with additional patent applications pending. NNZ-2591 is covered by 3 issued US patents, with an additional patent application pending. All patents are owned by Neuren and no royalties are payable to third parties. Expiry dates of the patents range between 2022 and 2030.

US Patent number	Subject	Expected expiry	Product
7,041,314	Composition of matter and methods of use	**2022**	NNZ-2566
7,605,177	Method for treating traumatic brain injury	**2025**	NNZ-2566
7,714,020	Method for treating non-convulsive seizure in brain injury	**2026**	NNZ-2566
7,776,876	Compositions and methods for treating Parkinson's disease	**2026**	NNZ-2591
7,863,304	Compositions	**2027**	NNZ-2566
7,887,839	Compositions	**2028**	NNZ-2566
8,178,125	Oral formulations	**2031**	NNZ-2566
8,496,963	Oral formulations	**2032**	NNZ-2566
8,067,425	Compounds and compositions	**2027**	NNZ-2591
8,519,127	Method for treating peripheral neuropathy	**2030**	NNZ-2591
8,637,567	Method for treating a cognitive disorder or a memory disorder	**2030**	NNZ-2566

Other products

Consistent with an increasing focus on, and investment in, the development of its key assets, NNZ-2566 and NNZ-2591, Neuren announced in February 2014 that it would not invest in any further development of Motiva™ (Nefiracetam). Neuren is also reviewing the strategic options for the anti-cancer programs conducted by its subsidiary Perseis Therapeutics in order to realise maximum value from the intellectual property.

Finance

Summary of financial results for the year to 31 December 2013

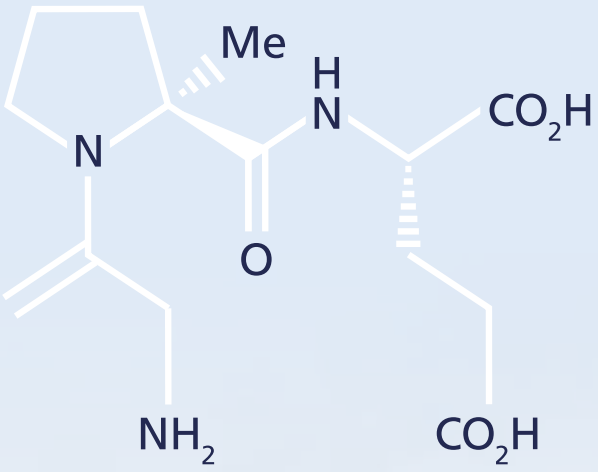
	2013	2012
	NZ$m	NZ$m
Grant income	5.7	5.3
Interest income	0.2	0.3
Total revenue	**5.9**	**5.6**
Research & Development	(9.5)	(8.1)
Corporate & Administration	(2.4)	(1.5)
Foreign exchange loss	(1.6)	(0.2)
Patent costs	(0.3)	(0.2)
Depreciation & amortisation	(0.4)	(0.4)
Share based payments expense	(0.8)	(1.7)
Loss before impairment charge	**(9.1)**	**(6.5)**
Motiva impairment charge	(3.2)	0.0
Loss before and after tax	**(12.3)**	**(6.5)**
Operating cash outflow	(8.4)	(3.7)
New share capital	30.0	0.5
Foreign exchange loss	(1.6)	(0.1)
Cash at 31 December	**26.5**	**6.5**

Neuren's consolidated loss after tax for the year ended 31 December 2013 was NZ$12.3 million (2012: NZ$6.5 million). The increased loss was due to the following:

- A non-cash impairment loss of $3.2 million following a review of the carrying value of the acquired intellectual property related to Motiva;
- An increase of $1.4 million in research and development costs, mainly attributable to the Rett Syndrome clinical trial and the Traumatic Brain Injury clinical trial;
- An increase of $1.4 million in accounting foreign exchange losses, due to the translation of Australian dollar cash reserves into New Zealand dollars at the year-end exchange rate, solely for the purpose of reporting financial results in New Zealand dollars; and
- An increase of $0.9 million in corporate and administration costs, mainly due to the appointment of an additional executive director and higher legal and travel costs; offset by
- A decrease of $0.9 million in share based payment expense, due to the completion of the amortisation of vested share options; and
- An increase of $0.3 million in grant revenue from the US government, reflecting higher costs in the Traumatic Brain Injury trial.

Cash reserves at 31 December 2013 were NZ$26.5 million (2012: NZ$6.5 million). Operating cash outflow increased to $8.4 million (2012: $3.7 million) due to the higher development and corporate costs and US government grant of $1.6 million earned but not received at 31 December 2013. Financing cash inflow increased to $30.0 million (2012: $0.5 million) due to the capital raising and to proceeds from the exercise of options of $4.0 million (2012: $0.5 million).

In order to better reflect Neuren's business environment and financial risks, its reporting currency will change from New Zealand dollars to Australian dollars, effective from 1 January 2014.



Leadership Team

Board

DR RICHARD TREAGUS

LARRY GLASS

BRUCE HANCOX

DR TREVOR SCOTT

Management

JON PILCHER

DR JOSEPH HORRIGAN

JAMES SHAW

Dr Richard Treagus
Executive Chairman

BScMed, MBChB, MPharmMed, MBA

Dr Treagus joined the Neuren Board as Executive Chairman on 31 January 2013. He is a physician and entrepreneur, with more than 20 years' experience in all aspects of the international biopharmaceutical industry. He is a business builder with a track record of delivering strong commercial outcomes and shareholder returns. He has held senior executive roles with pharmaceutical organisations in South Africa and Australia and has successfully established numerous pharmaceutical business partnerships in the US, Europe and Asia. Dr Treagus served as Chief Executive Officer of the ASX-listed company Acrux Limited until 2012. Under his leadership Acrux gained FDA approval for three drug products and concluded the largest product licensing deal in the history of the Australian biotech industry; a transaction with Eli Lilly worth US$335m plus royalties. Acrux is now a leading Australian biotechnology company and has been profitable since 2010. In 2010 Dr Treagus was awarded the Ernst and Young Entrepreneur-of-the-Year (Southern Region) in the Listed Company Category and in subsequent years has served on the judging panel.

Larry Glass
Executive Director and Chief Science Officer

BA (Biology)

Mr Glass joined Neuren in 2004 and has been an Executive Director since May 2012. He is a seasoned manager with more than 30 years in the life sciences industry. 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.

Bruce Hancox
Non-Executive Director

BCom

Mr Hancox joined the Neuren Board in March 2012. Mr Hancox has had a long and distinguished career in business in New Zealand and Australia. He was for many years involved with Brierley Investments Limited as General Manager, Group Chief Executive and Chairman. He also served as a director of many Brierley subsidiaries in New Zealand, Australia and the United States. Since 2006 he has pursued various private investment interests and has been a director of, and consultant to, a number of companies. He has acted as an advisor on a number of takeover situations. From 2007 to 30 April 2013 he was a director of Australian listed company Retail Food Group Limited and in February 2014 he became a director of Australian listed company Medical Australia Limited.

Dr Trevor Scott
Non-Executive Director

MNZM, LLD (Hon), BCom, FCA, FNZIM, DF Inst D

Dr Scott joined the Neuren Board in March 2002. He is the founder of T.D. Scott and Co., an accountancy and consulting firm, which he formed in 1988. He is an experienced advisor to companies across a variety of industries. Dr Scott serves on numerous corporate boards and is chairman of several, including Mercy Hospital Dunedin Limited and Arthur Barnett Limited. He is also a director of Argosy Property Limited which is listed on the New Zealand Stock Exchange.

Jon Pilcher
Chief Financial Officer

BSc (Hons), ACA

Jon joined Neuren in August 2013 from Acrux (ASX: ACR) where, as CFO & Company Secretary, he was a member of the leadership team for eleven years. That period included Acrux's IPO and listing on the ASX, the development and FDA approval of three novel pharmaceutical products and a transforming licensing deal with Eli Lilly in 2010. Jon is a Chartered Accountant and holds a degree in Biotechnology from the University of Reading in the UK. He formerly spent seven years in a series of senior financial positions in the R&D and corporate functions of international pharmaceutical groups Medeva and Celltech (now part of UCB).

Dr Joe Horrigan
Vice President, Clinical Development and Medical Affairs

Dr. Joe Horrigan is a pediatric neuropsychiatrist. Prior to joining Neuren in 2012, Dr. Horrigan served as Assistant Vice President and Head of Medical Research for Autism Speaks, the largest science and advocacy organisation in the US devoted to autism spectrum disorders (ASD). In this role he was responsible for developing and implementing a comprehensive strategy in the area of translational medical research in ASD, focusing primarily on Phase I-IV clinical trials. Prior to joining Autism Speaks, Dr. Horrigan worked for almost 10 years at GlaxoSmithKline, where he was a Senior Director in the Neurosciences Medicines Development Center. In that capacity, he played a lead role in the development and execution of Phase II-IV clinical development programs across several therapeutic areas in neurology and psychiatry. He also co-founded and led the company-wide Medicines for Children Advisory Network at GlaxoSmithKline. Dr. Horrigan is also a Clinical Associate Professor in the Department of Psychiatry at the University of North Carolina at Chapel Hill.

James Shaw
Chief Operating Officer

BSc (Hons), MBA

James joined Neuren in August 2013 and brings twenty years of development and commercialisation experience in the pharmaceutical industry, having worked for both large Pharma and Clinical Research Organisations (CROs). Before joining Neuren, he was CEO of a Clinical Research and Site Management Organisation providing full service clinical trial support in Australia and New Zealand. Prior to that he spent 7 years with Quintiles in Sydney and Singapore working across Business Development and Operational leadership roles. James brings a global focus to drug development, having led product teams from Phase II through to FDA submission and commercialisation during six years with AstraZeneca at their global headquarters in the UK.

Corporate Governance Statement

Neuren's board of directors ("Board") aims to ensure that the Company and its subsidiaries (the "Group") operates with a corporate governance framework and practices that promote an appropriate governance culture throughout the organisation and that are relevant, practical and cost-effective for the current size and stage of development of the business.

A description of the framework and practices is set out below, laid out under the structure of the ASX Listing Rules and the Corporate Governance Principles (the "Principles") and Recommendations (the "Recommendations") issued by the ASX Corporate Governance Council, as amended and issued in June 2010.

Principle 1. Lay solid foundations for management and oversight

The Board is responsible for the overall corporate governance of the Group. The Board acts on behalf of and is accountable to the shareholders. The Board seeks to identify the expectations of shareholders as well as other regulatory and ethical expectations and obligations. The Board is responsible for identifying areas of significant business risk and ensuring mechanisms are in place to manage those risks adequately. In addition, the Board sets the overall strategic goals and objectives, and monitors achievement of goals.

The Board appoints the principal executive officer, currently the Executive Chairman. The Board has delegated the responsibility for the operation and administration of the Group to the Executive Chairman and senior management. The Board ensures that the management team is appropriately qualified to discharge its responsibilities.

The Board ensures management's objectives and activities are aligned with the expectations and risks identified by the Board through a number of mechanisms including the following:

- establishment of the overall strategic direction and leadership of the Group;
- approving and monitoring the implementation by management of the Group's strategic plan to achieve those objectives;
- reviewing performance against its stated objectives, by receiving regular management reports on business situation, opportunities and risks;
- monitoring and review of the Group's controls and systems including those concerned with regulatory matters to ensure statutory compliance and the highest ethical standards; and
- review and adoption of the annual budget and monitoring the results against stated targets.

The Board sets the corporate strategy and financial targets with the aim of creating long-term value for shareholders.

The Board reviews the performance of the Executive Chairman at least annually and the Executive Chairman is responsible for reviewing at least annually the performance of senior management. These performance reviews were undertaken during 2013 during a process of significant reorganisation of the Group's operations, Board and management team.

Principle 2. Structure the Board to add value

A significant restructuring of the Board took place during 2013 to optimise the value added to the business by the Board during the next stage of the Group's development. Dr Richard Treagus was invited to join the Board as Executive Chairman in January 2013, two non-executive directors retired in May and a third retired in August 2013. The Board now has four members, as set out in the table below, and is highly engaged in the oversight and direction of the business. Details of the relevant skills, experience and expertise of each Board member are set out on pages 10 and 11 of this report.

	Appointment	Role	Independent	Committees
Richard Treagus	January 2013	Executive Chairman	No[1]	
Larry Glass	Board - May 2012 Management - 2004	Executive director and Chief Science Officer	No[1]	
Bruce Hancox	March 2012	Non-executive director	Yes	Member of Audit Committee and Remuneration Committee
Trevor Scott	March 2002	Non-executive director	Yes	Chair of Audit Committee and Remuneration Committee

1. Richard Treagus and Larry Glass are not considered independent due to their executive roles.

The directors believe that the current structure, small size and membership profile of the Board provides the maximum value to the business at this stage of its development, notwithstanding that they do not follow the Recommendations under Principle 2. The Board currently does not have a majority of independent directors (Recommendation 2.1), the Chairman is not independent (Recommendation 2.2) and the Chair and principal executive officer roles are not separate (Recommendation 2.3). The Board will continue to assess the optimum membership and structure for the business as it grows and develops.

The Board has not considered it necessary or value-adding to establish a separate Nomination Committee (Recommendation 2.4). The selection and appointment of directors is considered by the Board itself. The Board determines the terms and conditions relating to the appointment and retirement of directors on a case by case basis. The Board may also engage an external consultant where appropriate to identify and assess suitable candidates who meet the Board's specifications.

The performance of the Board, its committees and individual directors is regularly reviewed to ensure that the Board has the appropriate mix of independence, expertise and experience. This review was undertaken during 2013 as part of the process of restructuring the Board.

For the purposes of the proper performance of their duties, Directors are entitled to seek independent professional advice at the Company's expense on prior approval of the Chairman.

Principle 3. Promote ethical and responsible decision-making

The Board has established a Code of Conduct, which requires that Board members and executives:

- will act honestly, in good faith and in the best interests of the whole Company
- owe a fiduciary duty to the Company as a whole
- have a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office
- will undertake diligent analysis of all proposals placed before the Board
- will act with a level of skill expected from Directors and key executives of a publicly listed Company
- will use the powers of office for a proper purpose, in the best interests of the Company as a whole
- will demonstrate commercial reasonableness in decision-making
- will not make improper use of information acquired as Directors and key executives
- will not disclose non-public information except where disclosure is authorised or legally mandated
- will keep confidential information received in the course of the exercise of their duties and such information remains the property of the Company from which it was obtained and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the person from whom the information is provided, or required by law
- will not take improper advantage of the position of Director or use the position for personal gain or to compete with the Company
- will not take advantage of Company property or use such property for personal gain or to compete with the Company
- will protect and ensure the efficient use of the Company's assets for legitimate business purposes
- will not allow personal interests, or the interest of any associated person, to conflict with the interests of the Company
- have an obligation to be independent in judgement and actions and Directors will take all reasonable steps to be satisfied as to the soundness of all decisions of the Board
- will make reasonable enquiries to ensure that the Company is operating efficiently, effectively and legally, towards achieving its goals
- will not engage in conduct likely to bring discredit upon the Company
- will encourage fair dealing by all employees with the Company's customers, suppliers, competitors and other employees
- will encourage the reporting of unlawful/unethical behaviour and actively promote ethical behaviour and protection for those who report violations in good faith
- will give their specific expertise generously to the Company
- have an obligation, at all times, to comply with the spirit, as well as the letter of the law and with the principles of this Code of Conduct

Corporate Governance Statement

continued

At this stage of the Group's development, considering the small size of the workforce and the specialist nature of most positions, the Board has chosen not to establish a formal diversity policy or formal objectives for gender diversity, in order to follow Recommendations 3.2 and 3.3. The Group does not discriminate on the basis of age, ethnicity or gender and when a position becomes vacant the Group seeks to employ the best candidate available for the position. The Group currently has 11 employees and consultants, with a number of different cultural backgrounds, of which 5 are women. Currently no board members or senior executives are women.

Principle 4. Safeguard integrity in financial reporting

The Board has established an Audit Committee, which currently consists of the two independent non-executive directors, Trevor Scott (who chairs the Committee) and Bruce Hancox. Prior to the retirements during 2013 of Robin Congreve and John Holaday as non-executive directors, they also served on the Committee. The Audit Committee complies with Recommendation 4.2 in all respects except that it currently has less than three members. The Committee met twice during the year, attended by all members except John Holaday.

The Committee operates under a charter approved by the Board, a summary of which is available on the Neuren website. It is responsible for undertaking a broad review of, ensuring compliance with, and making recommendations in respect of, the Group's internal financial controls and legal compliance obligations. It is also responsible for:

- review of audit assessment of the adequacy and effectiveness of internal controls over the Company's accounting and financial reporting systems, including controls over computerised systems;
- review of the audit plans and recommendations of the external auditors;
- evaluating the extent to which the planned scope of the audit can be relied upon to detect weaknesses in internal control, fraud and other illegal acts;
- review of the results of audits, any changes in accounting practices or policies and subsequent effects on the financial statements and make recommendations to management where necessary and appropriate;
- review of the performance and fees of the external auditor;
- audit of legal compliance including trade practices, corporations law, occupational health and safety and environmental statutory compliance , and compliance with the Listing Rules of the ASX;
- supervision of special investigations when requested by the Board;

In undertaking these tasks the Audit Committee meets separately with management and external auditors where required.

Principle 5. Make timely and balanced disclosure

Neuren is required to comply with the continuous disclosure requirements as set out in the ASX Listing Rules, disclosing to the ASX any information that a reasonable person would expect to have a material effect on the price or value of Neuren's securities, unless certain exemptions from the obligation to disclose apply. When analysts or investors are briefed on the business, no material information that has not been disclosed to the ASX is included in the briefing.

The Board has approved policies and procedures to ensure that it complies with its disclosure obligations and that disclosure is timely, factual, clear and objective. The Board has designated the company secretary as the person primarily responsible for implementing and monitoring those policies and procedures. A summary of the policies and procedures is available on the Neuren website. All information disclosed to the ASX is placed on the Neuren website after it has been published by the ASX.

Principle 6. Respect the rights of shareholders

The Board strives to communicate effectively with shareholders, give them ready access to balanced and understandable information about the business and make it easy for them to participate in shareholder meetings. Where possible electronic communication methods are used and shareholders are encouraged to use those methods. All announcements, presentations, financial information and meetings materials disclosed to the ASX are placed on Neuren's website, so that current and historical information can be accessed readily. The Board seeks practical ways to promote informed participation at shareholder meetings, providing access to clear and comprehensive meeting materials and electronic proxy voting.

Principle 7. Recognise and manage risk

The Board has established policies for the oversight and management of material business risks, a summary of which is available on the Neuren website.

The Board requires management to design and implement the risk management and internal control system to manage the Group's material business risks and report to it on whether those risks are being managed effectively. The Board received that report from management on 26 March 2014.

Notwithstanding that the New Zealand Companies Act 1993 does not require it, the Board also seeks assurances in writing from the Executive Chairman and the Chief Financial Officer that the annual financial statements present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with NZ GAAP and that this is founded on a sound system of risk management and internal control that is operating effectively in all material respects with regard to financial reporting risks. The Board received those assurances on 26 February 2014.

Principle 8. Remunerate fairly and responsibly

Neuren believes having highly skilled and motivated people will allow the organisation to best pursue its mission and achieve its goals for the benefit of shareholders and stakeholders more broadly. The ability to attract and retain the best people is critical to the Company's future success. The Board believes remuneration policies are a key part of ensuring this success.

The Board has established a Remuneration Committee, which currently consists of the two independent non-executive directors, Trevor Scott (who chairs the Committee) and Bruce Hancox. Prior to the retirements during 2013 of Robin Congreve and John Holaday as non-executive directors, they also served on the Committee. The Remuneration Committee complies with Recommendation 8.2 in all respects except that it currently has less than three members. The Committee met 3 times during 2013. All members attended, except that John Holaday did not attend 2 of the meetings.

The Committee operates under a charter approved by the Board, a summary of which is available on the Neuren website. It is responsible for undertaking a broad review of, ensuring compliance with, and making recommendations in respect of, the Group's remuneration policies. It is also responsible for:

- setting and reviewing compensation policies and practices of the Company;
- setting and reviewing all elements of remuneration of the directors and members of the executive team; and
- setting and reviewing long term incentive plans for employees and/or directors.

In undertaking these tasks the Remuneration Committee meets separately with management where required.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration on a regular basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality Board and executive team. To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive emoluments to the Company's performance. Long-term incentive arrangements have been provided by participation in a share option plan and a loan funded share plan to ensure key executives are aligned with shareholders through an interest in the long-term growth and value of the Company.

Non-executive director fees are determined by the Board within the aggregate limit for directors' fees approved by shareholders. The current remuneration level is A$50,000 per year with an additional A$10,000 for committee chairs. Non-executive directors receive no retirement allowances. New Zealand Companies Act disclosures with regard to the remuneration of directors and executives are set out in the Directors' Report on pages 16 to 18.

Directors' Report

Principal Activities

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.

Performance Overview

During 2013 Neuren made significant 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. Key developments included:

- A Phase 2 trial of NNZ-2566 in Rett Syndrome commenced in April 2013.
- Neuren received Fast Track designation from the US Food and Drug administration (FDA) for its Rett Syndrome development program in June 2013.
- Neuren announced positive results from a validated animal model of Fragile X Syndrome using Neuren's second drug molecule, NNZ-2591, in July 2013.
- Neuren received both Orphan Drug designation and Fast Track designation from the US Food and Drug administration for its Fragile X Syndrome development program in October 2013.
- A Phase 2 trial of NNZ-2566 in Fragile X Syndrome commenced in January 2014.
- The US Patent and Trademark Office issued two new patents covering NNZ-2566 and one new patent covering NNZ-2591.

In October 2013, Neuren successfully completed a capital raising to provide funding to implement its strategy. A placement of new shares at A$0.115 per share to institutional and sophisticated investors in Australia, New Zealand, the United Kingdom and Hong Kong provided funds before expenses of A$21.5 million. A Share Purchase Plan offered to shareholders at the same price per share provided further funds of A$2.0 million.

During 2013, the Company's corporate office was transferred from Auckland, New Zealand to Melbourne, Australia. The Directors intend to change the Company's and Group's functional reporting currency to Australian dollars from 1 January 2014.

The detailed financial statements are presented on pages 20 to 43. All amounts in the Financial Statements are shown in New Zealand dollars unless otherwise stated.

The Group's net loss attributable to equity holders of the Company for the year ended 31 December 2013 was $12,292,000 (2012: $6,422,000). The increased loss was due to the following:

- A non-cash Impairment loss of $3.2 million following a review of the carrying value of the acquired intellectual property related to Motiva™;
- An increase of $1.4 million in research and development costs, mainly attributable to the Rett Syndrome clinical trial and the Traumatic Brain Injury clinical trial;
- An increase of $1.4 million in reported foreign exchange losses, due to the translation for accounting purposes only of Australian dollar cash reserves into New Zealand dollars;
- An increase of $0.9 million in corporate and administration costs, mainly due to the appointment of an additional executive director and higher legal and travel costs; offset by
- A decrease of $0.9 million in share based payment expense, due to the completion of the amortisation of vested share options; and
- An increase of $0.3 million in grant revenue from the US government, reflecting higher costs in the Traumatic Brain Injury trial.

The net loss per share for 2013 was $0.010 (2012: $0.005) based on a weighted average number of shares outstanding of 1,261,220,342 (2012: 1,174,106,753).

Cash reserves at 31 December 2013 were $26.5 million (2012: $6.5 million). Operating cash outflow increased to $8.4 million (2012: $3.7 million) due to the higher development and corporate costs and US government grant of $1.6 million earned but not received at 31 December 2013. Financing cash inflow increased to $30.0 million (2012: $0.5 million) due to the capital raising and to proceeds from the exercise of options of $4.0 million (2012: $0.5 million).

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

Directors of the Company

Details of the current directors are shown on pages 10 and 11 of this report.

Dr Robin Congreve, LLM, PhD (Non-Executive Director)
Dr Congreve resigned from the Neuren Board on 20 May 2013.

Dr John Holaday, PhD (Non-Executive Director)
Dr Holaday resigned from the Neuren Board on 30 August 2013.

Dr Douglas Wilson, MB, ChB, PhD (Non-Executive Director)
Dr Wilson resigned from the Neuren Board on 20 May 2013.

Directors of subsidiary companies

AgVentures Limited: Trevor Scott, Jon Pilcher (appointed 30 August 2013), Robin Congreve (resigned 20 May 2013), Rob Turnbull (resigned 30 August 2013)

Neuroendocrinz Limited: Jon Pilcher (appointed 30 August 2013), Rob Turnbull (resigned 30 August 2013)

Neuren Pharmaceuticals Inc: Larry Glass

Hamilton Pharmaceuticals Inc: Richard Treagus (appointed 20 May 2013), Larry Glass, Robin Congreve (resigned 20 May 2013)

Neuren Pharmaceuticals (Australia) Pty Ltd: Bruce Hancox, Larry Glass, Rob Turnbull (resigned 30 August 2013)

Neuren Trustee Limited: Bruce Hancox (appointed 29 May 2013), Trevor Scott (appointed 29 May 2013)

Perseis Therapeutics Limited: Richard Treagus (appointed 20 May 2013), Larry Glass, Hilary Lewis, Tony Moffatt, Robin Congreve (resigned 20 May 2013)

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 2013 are as follows:

Dr R Treagus
Dr Treagus became a director of Hatchtech Pty Ltd, an unlisted company developing a novel head lice treatment. Dr Treagus acquired a relevant interest in 40 million ordinary shares in the Company under the Loan Funded Share Plan on 29 May 2013. Those shares are held in trust for Dr Treagus by Neuren Trustee Limited and may vest in him (thereby transferring him legal title to the shares) in accordance with the terms of the Loan Funded Share Plan detailed in Note 12 to the Financial Statements. Dr Treagus has a relevant interest in the shares by virtue of being the beneficial owner of the shares.

Dr Treagus did not pay any cash consideration to acquire a relevant interest in the shares but consideration will be payable if Dr Treagus chooses to settle the loan funding the acquisition of the shares on vesting, as detailed in Note 12 to the Financial Statements. Dr Treagus acquired 9,615,385 Equity Performance Rights in the Company on 29 May 2013, calculated as A$300,000 divided by A$0.0312, the average closing price of the listed ordinary shares of the company over the five trading days immediately preceding 31 January 2013 (the date of the directors' decision to appoint Dr Treagus). When vested, the Company will issue at no cost one new ordinary share for each Equity Performance Right exercised. The terms of the Equity Performance Rights are detailed in Note 12 to the Financial Statements.

Mr B Hancox
Mr Hancox became a director of Medical Australia Limited, a medical products and distribution company, listed in Australia and ceased to be a director of Retail Food Group Limited, a company listed in Australia.

Dr T D Scott
Dr Scott acquired a relevant interest in 6,125,006 ordinary shares in the Company on 16 September 2013, as a beneficiary of registered holder Essex Castle Limited following a reorganisation of investments. Dr Scott acquired a relevant interest in 10,604,991 ordinary shares in the Company on 31 October 2013, following the exercise of options to acquire shares at A$0.0457 per share.

Dr Robin Congreve
Dr Congreve acquired 10 million ordinary shares in the Company on 22 May 2013, following the exercise of options to acquire shares at A$0.0377 per share.

Dr John Holaday
Dr Holaday acquired 5 million ordinary shares in the Company on 9 September 2013, following the exercise of options to acquire shares at A$0.0377 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 arranged Directors and Officers Liability Insurance which provides that Directors and Officers generally will incur no monetary loss as a result of actions undertaken by them as Directors and Officers. The insurance does not cover liabilities arising from criminal activities or deliberate or reckless acts or omissions.

Directors' Report

continued

Remuneration of Directors

Remuneration of the Directors is shown in the table below, including fees and the value of benefits, as well as the estimated fair value of share based payments amortised during the year or written back on the lapse of unvested share options.

Remuneration of Directors	Remuneration 2013 NZ$'000	Share based payments 2013 NZ$'000	Remuneration 2012 NZ$'000	Share based payments 2012 NZ$'000
Dr Richard Treagus	512	402	–	–
Mr Larry Glass	493	110	522	495
Mr Bruce Hancox	37	–	29	–
Dr Trevor Scott	44	56	60	254
Dr Robin Congreve	19	(134)	100	254
Dr John Hola day	23	14	35	63
Dr Doug Wilson	10	(34)	35	63
Dr Graeme Howie	–	14	(159)	63

Executive Remuneration

The number of employees, not being directors of the Company, who received remuneration and benefits above $100,000 per annum, was as follows:

	2013 NZ$'000	2012 NZ$'000
$100,000 – $109,999	1	–
$130,000 – $139,999	1	–
$140,000 – $149,999	1	2
$160,000 – $169,999	–	1
$210,000 – $219,999	–	1
$220,000 – $229,999	1	–
$250,000 – $259,999	–	1
$290,000 – $299,999	1	–

Donations

The Company made no donations during the year (2012: nil).

Auditors

PricewaterhouseCoopers are the auditors of the Company. Audit fees in relation to the annual and interim financial statements were $56,627 (2012: $45,000). During 2013 PricewaterhouseCoopers also received $14,700 (2012: nil) in relation to other financial advice and services.

For and on behalf of the Board of Directors who authorised the issue of these financial statements on 26 February 2014.

Dr Richard Treagus
Chairman

Dr Trevor Scott
Director

Financial Statements

For the year ended 31 December 2013

Statements of Comprehensive Income

For the year ended 31 December 2013

	Notes	Consolidated 2013 NZ$'000	Consolidated 2012 NZ$'000	Parent 2013 NZ$'000	Parent 2012 NZ$'000
Revenue – interest income		**216**	253	**216**	250
		216	253	**216**	250
Other income – grants		**5,658**	5,333	**–**	–
Total revenue and other income		**5,874**	5,586	**216**	250
Research and development costs		**(9,483)**	(8,053)	**(4,575)**	(1,907)
Corporate and administrative costs		**(2,456)**	(1,571)	**(2,416)**	(1,461)
Foreign exchange loss		**(1,593)**	(179)	**(1,613)**	(146)
Patent costs		**(268)**	(177)	**(184)**	(86)
Depreciation and amortisation expense	4	**(466)**	(456)	**(102)**	(92)
Share based payment expense		**(774)**	(1,694)	**(774)**	(1,694)
Impairment loss	10	**(3,167)**	–	**(4,201)**	–
Provision for doubtful debt	8	**–**	–	**(826)**	–
Loss before income tax		**(12,333)**	(6,544)	**(14,475)**	(5,136)
Income tax expense	5	**–**	–	**–**	–
Loss after income tax		**(12,333)**	(6,544)	**(14,475)**	(5,136)
Other comprehensive expense, net of tax					
Exchange differences on translation of foreign operations		**13**	(122)	**–**	–
Total comprehensive loss		**(12,320)**	(6,666)	**(14,475)**	(5,136)
Loss after income tax attributable to:					
Equity holders of the company		**(12,292)**	(6,422)	**(14,475)**	(5,136)
Minority interest		**(41)**	(122)	**–**	–
		(12,333)	(6,544)	**(14,475)**	(5,136)
Total comprehensive loss attributable to:					
Equity holders of the company		**(12,279)**	(6,544)	**(14,475)**	(5,136)
Minority interest		**(41)**	(122)	**–**	–
		(12,320)	(6,666)	**(14,475)**	(5,136)

The notes on pages 25 to 43 form part of these financial statements

Statements of Financial Position

As at 31 December 2013

	Notes	Consolidated 2013 NZ$'000	Consolidated 2012 NZ$'000	Parent 2013 NZ$'000	Parent 2012 NZ$'000
Assets					
Current assets:					
Cash and cash equivalents	7	**26,475**	6,477	**26,374**	6,450
Trade and other receivables	8	**1,807**	164	**2,338**	1,521
Total current assets		**28,282**	6,641	**28,712**	7,971
Non-current assets:					
Property, plant and equipment	9	**25**	32	**25**	32
Intangible assets	10	**428**	4,021	**392**	472
Investments in subsidiaries	14	**–**	–	**56**	4,257
Total non-current assets		**453**	4,053	**473**	4,761
Total assets		**28,735**	10,694	**29,185**	12,732
Liabilities and equity					
Current liabilities:					
Trade and other payables	11	**2,239**	2,676	**1,517**	1,387
Lease incentive – short term		**–**	7	**–**	7
Total current liabilities		**2,239**	2,683	**1,517**	1,394
Non-current liabilities:					
Lease incentive – long term		**–**	17	**–**	17
Total liabilities		**2,239**	2,700	**1,517**	1,411
Equity					
Share capital	12	**110,962**	80,914	**110,962**	80,914
Other reserves		**10,720**	9,933	**10,966**	10,192
Accumulated deficit		**(94,964)**	(82,672)	**(94,260)**	(79,785)
Total Equity attributable to equity holders		**26,718**	8,175	**27,668**	11,321
Minority interest in equity		**(222)**	(181)	**–**	–
Total Equity		**26,496**	7,994	**27,668**	11,321
Total liabilities and equity		**28,735**	10,694	**29,185**	12,732

The notes on pages 25 to 43 form part of these financial statements

Statements of Changes in Equity

For the year ended 31 December 2013

Consolidated	Share Capital NZ$'000	Share Option Reserve NZ$'000	Foreign Currency Translation Reserve NZ$'000	Accumulated Deficit NZ$'000	Total Attributable to Equity Holders NZ$'000	Minority Interest NZ$'000	Total Equity NZ$'000
Equity as at 1 January 2012	80,374	8,498	(137)	(76,250)	12,485	(59)	12,426
Comprehensive loss for the year			(122)	(6,422)	(6,544)	(122)	(6,666)
Transactions with Owners:							
Shares issued on option exercise	547				547		547
Share issue costs expensed	(7)				(7)		(7)
Share based payments for services		1,694			1,694		1,694
Equity as at 31 December 2012	80,914	10,192	(259)	(82,672)	8,175	(181)	7,994
Comprehensive loss for the year			13	(12,292)	(12,279)	(41)	(12,320)
Transactions with Owners:							
Shares issued on option exercise	4,050				4,050		4,050
Shares issued in Share Purchase Plan	2,270				2,270		2,270
Shares issued in private placement	24,797				24,797		24,797
Share issue costs expensed	(1,069)				(1,069)		(1,069)
Share based payments for services		774			774		774
Equity as at 31 December 2013	**110,962**	**10,966**	**(246)**	**(94,964)**	**26,718**	**(222)**	**26,496**

Parent	Share Capital NZ$'000	Share Option Reserve NZ$'000	Foreign Currency Translation Reserve NZ$'000	Accumulated Deficit NZ$'000	Total Attributable to Equity Holders NZ$'000
Equity as at 1 January 2012	80,374	8,498	–	(74,649)	14,223
Comprehensive loss for the year				(5,136)	(5,136)
Transactions with Owners:					
Shares issued on option exercise	547				547
Share issue costs expensed	(7)				(7)
Share based payments for services	–	1,694			1,694
Equity as at 31 December 2012	80,914	10,192	–	(79,785)	11,321
Comprehensive loss for the year				(14,475)	(14,475)
Transactions with Owners:					
Shares issued on option exercise	4,050				4,050
Shares issued in Share Purchase Plan	2,270				2,270
Shares issued in private placement	24,797				24,797
Share issue costs expensed	(1,069)				(1,069)
Share based payments for services		774			774
Equity as at 31 December 2013	**110,962**	**10,966**	**–**	**(94,260)**	**27,668**

The notes on pages 25 to 43 form part of these financial statements

Statements of Cash Flows

For the year ended 31 December 2013

	Consolidated		Parent	
	2013 NZ$'000	2012 NZ$'000	2013 NZ$'000	2012 NZ$'000
Cash flows from operating activities:				
Receipts from grants	4,087	5,333	–	–
Interest received	153	254	153	252
GST refunded	60	77	60	77
Payments to employees	(2,764)	(1,696)	(2,764)	(1,611)
Payments to other suppliers	(9,923)	(7,687)	(4,465)	(1,844)
Net cash used in operating activities	(8,387)	(3,719)	(7,016)	(3,126)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(19)	(37)	(19)	(37)
Purchase of intangible assets	–	(8)	–	(8)
Proceeds from sale of property, plant and equipment	2	2	2	2
Advance (to)/from subsidiaries	–	–	(1,443)	(576)
Net cash used in investing activities	(17)	(43)	(1,460)	(619)
Cash flows from financing activities:				
Proceeds from the issue of shares	27,068	–	27,068	–
Proceeds from the exercise of options	4,049	547	4,049	547
Payment of share issue expenses	(1,069)	(7)	(1,069)	(7)
Net cash provided from financing activities	30,048	540	30,048	540
Net (decrease) increase in cash	21,644	(3,222)	21,572	(3,205)
Effect of exchange rate changes on cash balances	(1,646)	(145)	(1,648)	(142)
Cash at the beginning of the year	6,477	9,844	6,450	9,797
Cash at the end of the year	26,475	6,477	26,374	6,450
Reconciliation with loss after income tax:				
Loss after income tax	(12,333)	(6,544)	(14,475)	(5,136)
Non-cash items requiring adjustment:				
Depreciation of property, plant and equipment	22	12	22	12
Amortisation of intangible assets	444	444	80	80
Impairment loss	3,167	–	4,202	–
Provision for doubtful debt	–	–	826	–
Share option compensation expense	774	1,694	774	1,694
Foreign exchange (gain) loss	1,642	179	1,649	146
Lease incentive recognition and amortisation	(24)	15	(24)	15
Changes in working capital:				
Trade and other receivables	(1,643)	(29)	(200)	26
Trade and other payables	(436)	510	130	37
Net cash used in operating activities	(8,387)	(3,719)	(7,016)	(3,126)

The notes on pages 25 to 43 form part of these financial statements

Notes to the Financial Statements

For the year ended 31 December 2013

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, as well as symptoms of 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 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 26 February 2014.

Inherent Uncertainties

- There are inherent uncertainties associated with assessing the carrying value of the acquired intellectual property. The ultimate realisation of the carrying values of intellectual property is dependent on the Company and Group successfully developing its products, on licensing the products, or divesting the intellectual property so that it generates future economic benefits to the Company.
- The Group's research and development activities involve inherent risks. These risks include, among others: dependence on, and the Group's ability to retain key personnel; the Group's ability to protect its intellectual property and prevent other companies from using the technology; the Group's business is based on novel and unproven technology; the Group's ability to sufficiently complete the clinical trials process; and technological developments by the Group's competitors may render its products obsolete.
- The Company has a business plan which will require expenditure in excess of revenue until sales revenue streams are established and therefore expects to continue to incur additional net losses until then. In the future, the Company may need to raise further financing through other public or private equity financings, collaborations or other arrangements with corporate sources, or other sources of financing to fund operations. There can be no assurance that such additional financing, if available, can be obtained on terms reasonable to the Company.

2. Summary of significant accounting policies

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

(a) Basis of preparation

Entities Reporting

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 31 December 2013 and the results of all subsidiaries for the year then ended. Neuren Pharmaceuticals Limited and its subsidiaries, which are designated as profit-oriented entities for financial reporting purposes, together are referred to in these financial statements as the Group.

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

Statutory Base

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

These financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

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 to exercise its judgement in the process of applying the Company's accounting policies such as in relation to impairment, if any, of intangible assets set out in Note 10. Actual results may differ from those estimates.

Changes in accounting policies

There were no changes in accounting policies in the year ended 31 December 2013.

Notes to the Financial Statements

For the year ended 31 December 2013

2. Summary of significant accounting policies (continued)

(b) Principles of Consolidation

Subsidiaries

Subsidiaries are all those entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs attributable to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

(c) Segment Reporting

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

(d) Foreign Currency Translation

(i) Functional and Presentation Currency

Items included in the financial statements of each of the Group's operations are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that operation ("functional currency"). The Consolidated and Parent financial statements are presented in New Zealand dollars, which is the Group's presentation currency. From 1 January 2014 the presentation currency will change to Australian dollars.

(ii) Transactions and Balances

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

(iii) Foreign Operations

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

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

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

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

(e) Revenue recognition

Grants

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

Interest income

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

(f) Research and development

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

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

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

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

(g) Income tax

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

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

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

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

(h) Leases

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

(i) Impairment of non-financial assets

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

(j) Goods and services tax (GST)

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

(k) Intellectual property

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

Notes to the Financial Statements

For the year ended 31 December 2013

2. Summary of significant accounting policies (continued)

(l) Cash and cash equivalents

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

(m) Accounts receivable

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

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

(n) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

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

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

(o) Intangible assets

Intellectual property

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

Acquired software

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

(p) Employee benefits

Wages and salaries and annual leave

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

Share-based payments

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

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

(q) Share issue costs

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

(r) Financial instruments

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

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

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

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

(t) Standards, interpretations and amendments to published standards that are not yet effective
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for later periods and which the Group has not adopted early. The key items applicable to the Group are:

– NZ IFRS 9: Financial Instruments (effective for annual periods beginning on or after 1 January 2015) partly replaces NZ IAS 39 and introduces requirements for classifying and measuring financial assets and liabilities.

There are no other standards, amendments or interpretations to existing standards which have been issued, but are not yet effective, which are expected to impact the Company or Group.

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 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.

	2013 NZ$'000	2012 NZ$'000
Grant income – United States	5,658	5,311
Grant Income – New Zealand	–	22
Total Grant income	5,658	5,333
Interest income – Australia	139	–
Interest income – New Zealand	77	251
Interest income – United States	–	2
Total Interest income	216	253

Notes to the Financial Statements

For the year ended 31 December 2013

4. Expenses

	Consolidated		Parent	
	2013 NZ$'000	2012 NZ$'000	2013 NZ$'000	2012 NZ$'000
Loss before income tax includes the following specific expenses:				
Depreciation – property, plant and equipment				
Scientific equipment	–	–	–	–
Computer equipment	22	10	22	10
Fixtures and fittings	–	1	–	1
Leasehold improvements	–	1	–	1
Total depreciation	22	12	22	12
Amortisation – intangible assets				
Intellectual property	442	442	78	78
Software	2	2	2	2
Total amortisation	444	444	80	80
Remuneration of auditors				
Audit fees	57	45	57	44
Taxation fees	15	–	15	–
Total remuneration of auditors	72	45	72	44
Employee benefits expense				
Salaries and wages	1,070	1,581	1,070	1,497
Share option compensation	345	997	610	997
Total employee benefits expense	1,415	2,578	1,680	2,494
Directors' fees	1,138	208	1,138	208
Directors' fees waived	–	(159)	–	(159)
Directors' share based payment compensation	429	697	402	697
Lease expense	137	128	137	128

5. Income tax

	Consolidated		Parent	
	2013 NZ$'000	2012 NZ$'000	2013 NZ$'000	2012 NZ$'000
Income tax expense				
Current tax	–	–	–	–
Deferred tax	–	–	–	–
Income tax expense	–	–	–	–
Numerical reconciliation of income tax expense to prima facie tax receivable:				
Loss before income tax	**(12,333)**	(6,544)	**(14,475)**	(5,136)
Tax at rates applicable in the respective countries	**(3,797)**	(1,963)	**(4,052)**	(1,438)
Tax effect of amounts not deductible (taxable) in calculating taxable income:				
Share option compensation	**217**	474	**217**	474
Impairment loss	**1,298**	–	**1,176**	–
Provision for doubtful debt	–	–	**231**	–
Other expenses not deductible for tax purposes	–	1	–	1
	(2,282)	(1,488)	**(2,428)**	(963)
Under (over) provision in prior years	**72**	2	**72**	–
Deferred tax assets not recognised	**2,210**	1,486	**2,356**	963
Income tax expense	–	–	–	–

The weighted average applicable tax rate for New Zealand segments is 28% and for United States segments 41% (2012: 28% and 41% respectively).

6. Loss per share

Basic loss per share is based upon the weighted average number of outstanding ordinary shares. For the years ended 31 December 2013 and 2012, the Company's potentially dilutive ordinary share equivalents (being the options over ordinary shares set out in Note 12) have an anti-dilutive effect on loss per share and, therefore, have not been included in determining the total weighted average number of ordinary shares outstanding for the purpose of calculating diluted loss per share.

	Consolidated	
	2013 NZ$'000	2012 NZ$'000
Loss after income tax attributable to equity holders	**(12,292)**	(6,422)
Weighted average shares outstanding (basic)	**1,261,220,342**	1,174,106,753
Weighted average shares outstanding (diluted)	**1,261,220,342**	1,174,106,753
Basic and diluted loss per share	**($0.010)**	($0.005)

Notes to the Financial Statements

For the year ended 31 December 2013

7. Cash and cash equivalents

	Consolidated		Parent	
	2013 NZ$'000	2012 NZ$'000	2013 NZ$'000	2012 NZ$'000
Cash	1,602	52	1,562	38
Demand and short-term deposits	24,873	6,425	24,812	6,412
	26,475	6,477	26,374	6,450

8. Trade and other receivables

	Consolidated		Parent	
	2013 NZ$'000	2012 NZ$'000	2013 NZ$'000	2012 NZ$'000
Trade receivables	1,697	14	134	11
Interest receivable	63	–	63	–
Prepayments	47	150	47	33
Due from subsidiaries	–	–	2,920	1,477
Provision for doubtful debt	–	–	(826)	–
	1,807	164	2,338	1,521

A provision was made against the full amount receivable from the subsidiary Hamilton Pharmaceuticals Inc. following a review of the carrying value of the subsidiary's intellectual property relating to Motiva.

9. Property, plant and equipment

Consolidated and Parent	Scientific Equipment NZ$'000	Computer Equipment NZ$'000	Fixtures & Fittings NZ$'000	Leasehold Improvements NZ$'000	Total NZ$'000
As at 1 January 2012					
Cost	100	77	43	10	230
Accumulated depreciation	(100)	(74)	(42)	(8)	(224)
Net book value	–	3	1	2	6
Movements in the year ended 31 Dec 2012					
Opening net book value	–	3	1	2	6
Additions	–	37	1	–	38
Depreciation	–	(10)	(1)	(1)	(12)
Disposals	–	–	–	–	–
Closing net book value	–	30	1	1	32
As at 31 December 2012					
Cost	41	53	36	2	132
Accumulated depreciation	(41)	(23)	(35)	(1)	(100)
Net book value	–	30	1	1	32
Movements in the year ended 31 Dec 2013					
Opening net book value	–	30	1	1	32
Additions	–	17	2	–	19
Depreciation	–	(22)	–	–	(22)
Disposals	–	(2)	(1)	(1)	(4)
Closing net book value	–	23	2	–	25
As at 31 December 2013					
Cost	15	57	2	–	74
Accumulated depreciation	(15)	(34)	–	–	(49)
Net book value	–	23	2	–	25

Notes to the Financial Statements

For the year ended 31 December 2013

10. Intangible assets

Consolidated	Intellectual Property NZ$'000	Acquired Software NZ$'000	Total NZ$'000
As at 1 January 2012			
Cost	6,856	–	6,856
Accumulated amortisation	(2,205)	–	(2,205)
Net book value	4,651	–	4,651
Movements in the year ended 31 December 2012			
Opening net book value	4,651	–	4,651
Additions	–	8	8
Amortisation	(442)	(2)	(444)
Exchange differences	(194)	–	(194)
Closing net book value	4,015	6	4,021
As at 31 December 2012			
Cost	6,583	8	6,591
Accumulated amortisation	(2,568)	(2)	(2,570)
Net book value	4,015	6	4,021
Movements in the year ended 31 December 2013			
Opening net book value	4,015	6	4,021
Additions	–	–	–
Amortisation	(441)	(3)	(444)
Impairment loss	(3,167)	–	(3,167)
Exchange differences	18	–	18
Closing net book value	425	3	428
As at 31 December 2013			
Cost	1,232	8	1,240
Accumulated amortisation	(807)	(5)	(812)
Net book value	425	3	428
Intellectual Property	NNZ-2566	Motiva	TFF/hGH
Opening net book value	466	3,508	41
Amortisation	(77)	(359)	(5)
Impairment loss	–	(3,167)	–
Exchange differences	–	18	–
Closing net book value	389	–	36
Remaining amortisation period	5 years		8.3 years

An impairment loss was recorded following a review of the carrying value of the Group's intellectual property related to Motiva, held by the subsidiary company Hamilton Pharmaceuticals Inc.

Parent	Intellectual Property NZ$'000	Acquired Software NZ$'000	Total NZ$'000
As at 1 January 2012			
Cost	1,167	–	1,167
Accumulated amortisation	(623)	–	(623)
Net book value	544	–	544
Movements in the year ended 31 December 2012			
Opening net book value	544	–	544
Additions	–	8	8
Amortisation	(78)	(2)	(80)
Closing net book value	466	6	472
As at 31 December 2012			
Cost	1,167	8	1,175
Accumulated amortisation	(701)	(2)	(703)
Net book value	466	6	472
Movements in the year ended 31 December 2013			
Opening net book value	**466**	**6**	**472**
Additions	**–**	**–**	**–**
Amortisation	**(77)**	**(3)**	**(80)**
Closing net book value	**389**	**3**	**392**
As at 31 December 2013			
Cost	**1,167**	**8**	**1,175**
Accumulated amortisation	**(778)**	**(5)**	**(783)**
Net book value	**389**	**3**	**392**

11. Trade and other payables

	Consolidated		Parent	
	2013 NZ$'000	2012 NZ$'000	2013 NZ$'000	2012 NZ$'000
Trade payables	**2,012**	2,168	**1,290**	929
Accruals	**119**	360	**119**	310
Employee benefits	**108**	148	**108**	148
	2,239	2,676	**1,517**	1,387

Notes to the Financial Statements

For the year ended 31 December 2013

12. Share capital

Consolidated and Parent	2013 Shares	2012 Shares	2013 NZ$'000	2012 NZ$'000
Issued share capital				
Ordinary shares on issue at beginning of year	**1,182,786,570**	1,155,864,425	**80,914**	80,374
Shares issued in private placement	**187,000,000**	–	**24,797**	–
Shares issued in Share Purchase Plan	**17,606,589**	–	**2,270**	–
Shares issued in Loan Funded Share Plan	**40,000,000**	–	**–**	–
Shares issued on option exercise	**85,135,804**	26,922,145	**4,050**	547
Share issue expenses – cash issue costs	**–**	–	**(1,069)**	(7)
	1,512,528,963	1,182,786,570	**110,962**	80,914

(a) Ordinary Shares

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

(b) Share Options

Movements in the number of share options were as follows:

Consolidated and Parent	Options	Weighted Average Exercise Price (NZ$)	Exercisable	Weighted Average Exercise Price (NZ$)
Outstanding at 1 January 2012	310,477,169	$ 0.036	235,810,505	$ 0.038
Granted	15,000,000	$ 0.024		
Exercised	(26,922,145)	$ 0.020		
Outstanding at 31 December 2012	298,555,024	$ 0.036	251,221,695	$ 0.037
Lapsed	(15,000,000)	$ 0.049		
Exercised	(85,135,804)	$ 0.053		
Outstanding at 31 December 2013	**198,419,220**	**$ 0.027**	**193,419,220**	**$ 0.029**

In 2011 the Company granted 39,273,507 options in conjunction with monthly conversions and final conversion on termination of convertible notes under a convertible loan facility. The options have a term of 4 years from their grant date and are exercisable into ordinary shares on a one-for-one basis with exercise prices ranging from A$0.0146 to A$0.0163 per share. 24,299,892 of these options remained outstanding at 31 December 2013. In 2010 the Company granted 72,517,351 options in conjunction with monthly conversions of convertible notes under the convertible loan facility. The options have a term of 4 years from their grant date and are exercisable into ordinary shares on a one-for-one basis with exercise prices ranging from A$0.0163 to A$0.0337 per share. 52,319,328 of these options remained unexercised at 31 December 2013.

In 2009 the Company granted 40,306,174 options in conjunction with a private placement on that date. The options were exercisable into ordinary shares on a one-for-one basis with an exercise price of A$0.0457 per share. The options were exercised in 2013.

In 2009 the Company granted 4,629,630 options in conjunction with partial conversion of a convertible note. The options were exercisable into ordinary shares on a one-for-one basis with an exercise price of A$0.0389 per share. The options were exercised in 2013.

In 2009 the Company granted 20,000,000 options in conjunction with obtaining a convertible loan facility. The options were exercisable into ordinary shares on a one-for-one basis with an exercise price of A$0.0445 per share. The options were exercised in 2013.

The above options were otherwise issued on terms and conditions not materially different to those of the Share Option Plan described below.

Share Option Plan

The Company has a Share Option Plan to assist in the retention and motivation of senior employees and certain consultants ("Participants"). Under the Share Option Plan, options may be offered to Participants by the Remuneration and Audit Committee. The maximum number of options to be issued and outstanding under the Share Option Plan is 15% of the issued ordinary shares of the Company at any time, with one third of these available to the directors with the approval of shareholders. No payment is required for the grant of options under the Share Option Plan. Each option is an option to subscribe in cash for one ordinary share, but does not carry any right to vote. Upon the exercise of an option by a Participant, each ordinary share issued will rank equally with other ordinary shares of the Company. Options granted under the Share Option Plan generally vest over three years' service by the Participant and lapse five years after grant date. At 31 December 2013 there were 123 million options outstanding under the Share Option Plan (2012: 153 million).

No options were granted during 2013. For options granted during 2012, the weighted average assessed fair value determined using the Black-Scholes valuation model was NZ$0.035 per option. The significant weighted average inputs into the model were a grant date share price of NZ$0.043, volatility of 122%, dividend yield of 0%, an expected option life of 3.6 years, and an annual risk-free interest rate of 2.93%. The expected price volatility was derived by analysing the historic volatility of the Company's shares since listing on the ASX.

The weighted average remaining contractual life of outstanding share options at 31 December 2013 is 1.9 years (2012: 2.5 years). The outstanding share options are detailed in the following table. The exercise price per share and the total exercise price are stated in Australian dollars.

Number of options	Expiry date	Exercise price per share (A$)	Total exercise price (A$)
4,626,335	17/02/2014	0.0337	$155,907
4,270,463	17/02/2014	0.0337	$143,915
5,338,078	17/02/2014	0.0337	$179,893
1,169,064	22/03/2014	0.0334	$39,047
1,079,137	22/03/2014	0.0334	$36,043
1,348,921	22/03/2014	0.0334	$45,054
20,000,000	25/03/2015	0.0300	$600,000
3,000,000	25/03/2015	0.0300	$90,000
3,000,000	25/03/2015	0.0300	$90,000
1,231,061	21/04/2014	0.0317	$39,025
1,136,363	21/04/2014	0.0317	$36,023
1,420,455	21/04/2014	0.0317	$45,028
1,463,964	21/05/2014	0.0266	$38,941
1,351,352	21/05/2014	0.0266	$35,946
1,689,189	21/05/2014	0.0266	$44,932
1,737,968	21/06/2014	0.0224	$38,930
1,604,278	21/06/2014	0.0224	$35,936
2,005,348	21/06/2014	0.0224	$44,920
1,923,077	21/07/2014	0.0203	$39,038
1,775,148	21/07/2014	0.0203	$36,036
2,218,935	21/07/2014	0.0203	$45,044
2,006,173	20/08/2014	0.0194	$38,920
1,851,852	20/08/2014	0.0194	$35,926
2,314,815	20/08/2014	0.0194	$44,907
716,912	19/11/2014	0.0163	$11,686
661,764	19/11/2014	0.0163	$10,787
716,912	20/12/2014	0.0163	$11,686
661,764	20/12/2014	0.0163	$10,787
430,147	19/01/2015	0.0163	$7,011
397,059	19/01/2015	0.0163	$6,472
430,147	18/02/2015	0.0163	$7,011
397,059	18/02/2015	0.0163	$6,472
479,508	21/03/2015	0.0146	$7,001
442,623	21/03/2015	0.0146	$6,462
457,031	20/04/2015	0.0154	$7,038
421,874	20/04/2015	0.0154	$6,497
6,774,444	06/06/2015	0.0162	$109,746
6,253,333	06/06/2015	0.0162	$101,304
7,816,667	06/06/2015	0.0162	$126,630
5,000,000	06/05/2014	0.0154	$77,000
35,000,000	26/10/2016	0.0130	$455,000
15,000,000	26/10/2016	0.0130	$195,000
7,000,000	26/10/2016	0.0130	$91,000
20,000,000	26/10/2016	0.0377	$754,000
5,000,000	26/10/2016	0.0377	$188,500
14,800,000	07/08/2017	0.0190	$281,200
198,419,220			**$4,457,702**

12. Share capital (continued)

(c) Loan funded shares

In 2013 the Company established a Loan Funded Share Plan to support the achievement of the Company's business strategy by linking executive reward to improvements in the financial performance of the Company and aligning the interests of executives with shareholders. Under the Loan Funded Share Plan, loan funded shares may be offered to employees or consultant ("Participants") by the Remuneration and Audit Committee. The Company issues new ordinary shares, which are placed in a trust to hold the shares on behalf of the Participant. The trustee issues a limited-recourse, interest-free loan to the participant, which is equal to the number of shares multiplied by the issue price. A limited-recourse loan means that the repayment amount will be the lesser of the outstanding loan and the market value of the shares that are subject to the loan. The trustee continues to hold the shares on behalf of the Participant until all vesting conditions have been satisfied and the Participant chooses to settle the loan, at which point ownership of the shares is transferred from the trust to the Participant. Any dividends paid by the Company while the shares are held by the trust are applied as repayment of the loan at the after-tax value of the dividend. The directors may apply vesting conditions to be satisfied before the shares can be transferred to the Participant.

On 29 May 2013, 40 million shares were issued under the Loan Funded Share Plan to the Executive Chairman Richard Treagus, following approval by shareholders at the 2013 Annual General Meeting. The shares were issued at A$0.039 per share, which was the closing market price on the day of issue. These shares are subject to the following vesting conditions:

a. He is continuously a director 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.

The estimated fair value determined using the Black-Scholes valuation model was NZ$0.033 per loan funded share. The significant inputs into the model were an issue date share price of NZ$0.047, volatility of 119%, dividend yield of 0%, an expected option life of 3 years, and an annual risk-free interest rate of 2.50%. The expected price volatility was derived by analysing the historic volatility of the Company's shares since listing on the ASX.

On 18 September 2013, the directors resolved to issue under the Loan Funded Share Plan 20 million shares at A$0.092 per share to the Chief Financial Officer Jon Pilcher and 10 million shares at A$0.092 per share to the Chief Operating Officer James Shaw, subject to obtaining approval from shareholders at the 2014 Annual General Meeting. The issue price was the closing market price on the date of the resolution. After issue, these shares will be subject to the same performance conditions as the shares issued to Richard Treagus.

(d) Equity Performance Rights

Following approval by shareholders at the 2013 Annual General Meeting, on 29 May 2013 the Company issued 9,615,385 equity performance rights ("EPR") to Executive Chairman Richard Treagus, calculated as A$300,000 divided by A$0.0312, the average closing price of the listed ordinary shares of the Company over the five trading days immediately preceding 31 January 2013, which was the date of the directors' decision to appoint Dr Treagus. Subject to continuous service by Dr Treagus with the Company, each EPR vests three years from the date of appointment of Dr Treagus. 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 Dr Treagus 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 Dr Treagus ceases to be a director of the Company.

The estimated fair value determined using the Black-Scholes valuation model was NZ$0.041 per EPR. The significant inputs into the model were a grant date share price of NZ$0.041, volatility of 121%, dividend yield of 0%, an expected option life of 3 years, and an annual risk-free interest rate of 2.59%. The expected price volatility was derived by analysing the historic volatility of the Company's shares since listing on the ASX.

On 18 September 2013, the directors resolved to issue, subject to approval by shareholders at the 2014 Annual General Meeting, 2,666,667 equity performance rights ("EPR") to Chief Financial Officer Jon Pilcher, calculated as A$100,000 divided by A$0.0375, the average closing price of the listed ordinary shares of the Company over the five trading days immediately preceding 14 May 2013, which was the date that Mr Pilcher accepted an offer of employment. After issue, the EPR will be subject to the same conditions as the EPRs issued to Richard Treagus.

On 18 September 2013, the directors resolved to issue, subject to approval by shareholders at the 2014 Annual General Meeting, 643,225 equity performance rights ("EPR") to Chief Operating Officer James Shaw, calculated as A$75,000 divided by A$0.1166, the average closing price of the listed ordinary shares of the Company over the five trading days immediately preceding 16 August 2013, which was the date that Mr Shaw accepted an offer of employment. After issue, the EPR will be subject to the same conditions as the EPRs issued to Richard Treagus.

13. Deferred tax

	Consolidated		Parent	
	2013 NZ$'000	**2012 NZ$'000**	**2013 NZ$'000**	**2012 NZ$'000**
Deferred tax asset (liability)				
Amounts recognised in profit or loss				
Provisions and accruals	**9**	496	**9**	30
Property, plant and equipment	**–**	4	**–**	4
Intangible assets	**(787)**	(958)	**47**	25
Tax losses	**24,847**	22,317	**20,155**	17,796
	24,069	21,859	**20,211**	17,855
Unrecognised deferred tax assets	**(24,069)**	(21,859)	**(20,211)**	(17,855)
Deferred tax asset (liability)	**–**	–	**–**	–
Movements				
Deferred tax asset (liability) at the beginning of the year	**–**	–	**–**	–
Credited (charged) to the income statement (Note 5)	**2,210**	1,486	**2,356**	963
Effect of change in tax rates	**–**	–	**–**	–
Exchange differences	**–**	50	**–**	–
Change in unrecognised deferred tax assets	**(2,210)**	(1,536)	**(2,356)**	(963)
Deferred tax asset (liability) at the end of the year	**–**	–	**–**	–

The Inland Revenue of New Zealand is currently undertaking an audit of the Company's New Zealand tax returns covering the period from 1 January 2008 to 31 December 2011. The outcome of the audit is uncertain, but may impact the amount of the Parent unrecognised deferred tax assets shown in the above table.

The Company may not be able to generate future taxable profits in New Zealand to utilise the Parent unrecognised deferred tax assets shown in the above table.

Notes to the Financial Statements

For the year ended 31 December 2013

14. 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).

					Investment		Amount due to Parent	
Name of entity	Date of incorporation	Principle activities	Interest held	Domicile	2013 NZ$'000	2012 NZ$'000	2013 NZ$'000	2012 NZ$'000
AgVentures Limited	7-Oct-03	Dormant	100%	NZ	–	–	–	–
NeuroendocrinZ Limited	10-Jul-02	Dormant	100%	NZ	–	–	–	–
Neuren Pharmaceuticals Inc.	20-Aug-02	Development services	100%	USA	–	–	1,258	26
Hamilton Pharmaceuticals Inc.	2-Apr-04	Clinical research	100%	USA	4,201	4,201	826	778
Less: Impairment loss and provision for doubtful debt:					(4,201)	–	(826)	–
Neuren Pharmaceuticals (Australia) Pty Ltd	9-Nov-06	Dormant	100%	Australia	–	–	–	–
Perseis Therapeutics Limited	25-Mar-09	Preclinical research	72.20%	NZ	56	56	836	673

An Impairment loss and a provision for doubtful debt were made against the full investment and amount receivable from Hamilton Pharmaceuticals Inc. following a review of the carrying value of the subsidiary's intellectual property relating to Motiva.

All subsidiaries have a balance date of 31 December, except Perseis Therapeutics which has a 31 March year end.

15. Commitments and contingencies

(a) Operating leases

The following aggregate future non-cancellable minimum lease payments for premises have been committed to by the Company, but not recognised in the financial statements. The Company's premises commitment is for a two years and six months lease commencing June 2013, with an option to renew for a further term of three years, and annual rental reviews throughout.

Consolidated and Parent	2013 NZ$'000	2012 NZ$'000
Not later than one year	63	83
Later than one year and not later than five years	58	218
Later than five years	–	–
	121	301

(b) Legal claims

The Company has no significant legal matter contingencies as at 31 December 2013.

(c) Capital commitments

The Company is not committed to the purchase of any property, plant or equipment as at 31 December 2013 (2012: nil).

16. Related party transactions

(a) Key management personnel

The key management personnel include the directors of the Company and direct reports to the Executive Chairman. Compensation for this group was as follows:

Consolidated and Parent	2013 NZ$'000	2012 NZ$'000
Directors:		
Fees and other short term benefits	1,138	268
Accrued fees waived	–	(159)
Share based payment compensation	429	697
Management:		
Short-term benefits	885	1,298
Share based payment compensation	276	997
	2,728	3,101

(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 through the intercompany accounts as needed. Interests in and amounts due from subsidiaries are set out in Note 14. All amounts due between entities in the Group are payable on demand and bear no interest. During the year ended 31 December 2013 the Parent charged Perseis Therapeutics $30,000 (2012: $45,600) for management, intellectual property and administrative services.

17. Events after balance date

As at the date of these financial statements there were no events arising since 31 December 2013 which require disclosure.

18. Financial instruments and risk management

(a) Categories of financial instruments

	Consolidated		Parent	
	2013 NZ$'000	2012 NZ$'000	2013 NZ$'000	2012 NZ$'000
Financial assets				
Cash and cash equivalents	26,475	6,477	26,374	6,450
Trade and other receivables	1,760	14	197	11
Total financial assets (loans and receivables classification)	28,235	6,491	26,571	6,461
Financial liabilities				
Amortised cost:				
Trade and other payables	2,239	2,676	1,517	1,387
Total financial liabilities	2,239	2,676	1,517	1,387

(b) Risk management

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

Notes to the Financial Statements

For the year ended 31 December 2013

18. Financial instruments and risk management (continued)

Currency risk

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

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

A foreign exchange loss of $1,593,000 is included in results for the year ended 31 December 2013 (2012: $179,000 loss). The majority of the loss relates to the revaluation for reporting purposes of the Company's Australian dollar denominated cash reserves into New Zealand dollars and the significant strengthening of the New Zealand dollar against the Australian dollar in the latter part of 2013. This does not represent a genuine business loss, since those cash reserves will not be converted to New Zealand dollars. Future expenditure denominated in New Zealand dollars is not expected to be material. The directors intend to change the Group's functional reporting currency to Australian dollars effective from 1 January 2014.

Where possible, the Group matches foreign currency income and expenditure as a natural hedge. When foreign currency expenditure exceeds revenue (such as US dollar expenditure), the group purchases foreign currency to meet future anticipated requirements under spot and forward contracts. This may result in the Group holding significant amounts of cash denominated in US dollars. The Group does not designate formal hedges. At 31 December 2013, one forward exchange contract to buy US$500,000 and sell A$530,110 (at an exchange rate of 0.9432) was outstanding, with a settlement date of 8 January 2014.

The carrying amounts of foreign currency denominated assets and liabilities are as follows:

	Consolidated		Parent	
	2013 NZ$'000	2012 NZ$'000	2013 NZ$'000	2012 NZ$'000
Assets				
US dollars	6,498	3,645	3,766	805
Australian dollars	24,535	3,643	24,535	3,643
UK pounds	148	1	148	1
Liabilities				
US dollars	1,312	1,658	592	548
Australian dollars	159	233	159	166

The following table details the Group's sensitivity to a 10% increase and decrease in each of the currencies noted against the New Zealand dollar as at the reporting date.

	Consolidated		Parent	
Decrease (increase) in loss after income tax	2013 NZ$'000	2012 NZ$'000	2013 NZ$'000	2012 NZ$'000
10% strengthening of NZ dollar against:				
US dollar	(138)	139	(288)	(23)
Australian dollar	(2,216)	(310)	(2,709)	(316)
UK pound	(13)	34	(13)	28
10% weakening of NZ dollar against:				
US dollar	169	(170)	352	29
Australian dollar	2,198	379	2,687	386
UK pound	16	(41)	16	(35)

In the directors' opinion, the sensitivity analysis set out above is unrepresentative of the Group's future foreign exchange risk, because the functional reporting currency will change to Australian dollars from 1 January 2014.

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

The effective interest rates on financial assets are as follows:

	Consolidated		Parent	
	2013 NZ$'000	**2012 NZ$'000**	**2013 NZ$'000**	**2012 NZ$'000**
Financial assets				
Cash and cash equivalents				
New Zealand dollar cash deposits	**208**	2,796	**206**	2,796
New Zealand dollar interest rate	**3.00%**	3.00%	**3.00%**	3.00%
US dollar cash deposits	**1051**	13	**952**	–
US dollar interest rate	**0.01%**	0.10%	**0.01%**	0.10%
Australian dollar cash deposits	**25,068**	3,616	**25,068**	3,616
Australian dollar interest rate	**3.50%**	2.50%	**3.50%**	2.50%
Sterling cash deposits	**148**	–	**148**	–
Sterling interest rate	**0.00%**	0.00%	**0.00%**	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.

The Australian dollar denominated cash deposits mainly derived from new capital raised in October 2013. Therefore a 10% change in average market interest rates would not have had a material effect on the reported loss after tax for 2013. However, if the cash reserves at 31 December 2013 had been held throughout 2013, a 10% change in average market interest rates would have changed reported profit after tax by approximately NZ$0.1 million.

Credit risk
The Company and its subsidiaries incur credit risk from transactions with trade receivables and financial institutions in the normal course of its business. The credit risk on financial assets of the Group, which have been recognised in the statement of financial position, is the carrying amount, net of any allowance for doubtful debts. At 31 December 2013, NZ$1.6m was receivable from the US government (2012: nil).

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

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

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

Independent Auditors' Report

to the shareholders of Neuren Pharmaceuticals Limited

Report on the Financial Statements

We have audited the financial statements of Neuren Pharmaceuticals Limited ("the Company") on pages 20 to 43, which comprise the statements of financial position as at 31 December 2013, the statements of comprehensive income and statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2013 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Other than in our capacity as auditors we have no relationship with, or interests in, Neuren Pharmaceuticals Limited or any of its subsidiaries.

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Opinion

In our opinion, the financial statements on pages 20 to 43:

(i) comply with generally accepted accounting practice in New Zealand; and

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 31 December 2013, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2013:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
26 February 2014

Auckland

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Additional Information

Equity Securities Held by Directors as at 7 February 2014

	Interests in Ordinary Shares		Interests in Options		Interests in Equity Performance Rights	
Director	Direct	Indirect	Direct	Indirect	Direct	Indirect
Richard Treagus	–	40,000,000	–	–	9,615,385	–
Larry Glass	–	–	55,000,000	–	–	–
Bruce Hancox	–	–	–	–	–	–
Trevor Scott	–	50,118,249	20,000,000	–	–	–

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, Financial Markets Conduct Act 2013, Takeovers Act 1993, Overseas Investment Act 1973, Commerce Act 1986 and various regulations and codes promulgated under such Acts.

Corporations Act, Australia – Directors' declaration

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

1. The financial statements on pages 20 to 43 of Neuren and its subsidiaries for the year ended 31 December 2013 and the notes to those financial statements:
   (a) comply with the accounting standards issued by the Institute of Chartered Accountants of New Zealand; and
   (b) give a true and fair view of the financial position as at 31 December 2013 and of the performance for the year ended on that date of Neuren and its subsidiaries.
2. In the Directors' opinion there are reasonable grounds to believe that Neuren will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors dated 26 February 2014.

On behalf of the Board

Dr Richard Treagus
Chairman

Dr Trevor Scott
Director

Equity Securities information

The Company has only one class of shares, being ordinary shares. Each ordinary share is entitled to one vote when a poll is called; otherwise on a show of hands at a shareholder meeting every member present in person or by proxy has one vote. There are no securities subject to escrow and there is no current on-market buy-back of securities.

The following information is based on share registry information processed up to and including 28 February 2014.

The number of ordinary shareholdings held in less than marketable parcels at 28 February 2014 was 543, holding 1,407,597 ordinary shares.

Distribution of Shareholders Analysis of ordinary shares by size of holding:	Number of ordinary shares	%	Number of holders
100,001 and Over	1,437,484,707	93.77	1,071
10,001 to 100,000	90,424,294	5.90	1,904
5,001 to 10,000	3,789,789	0.25	444
1,001 to 5,000	1,287,847	0.08	321
1 to 1,000	30,535	0.00	205
Total	**1,533,017,172**	**100.00**	**3,945**

Distribution of Shareholders Analysis of ordinary shares by size of holding:	Number of Optionholders	Number of Options
1 – 1,000	–	–
1,001 – 5,000	–	–
5,001 – 10,000	–	–
10,001 – 100,000	–	–
100,001 and over	9	184,184,344
	9	**184,184,344**

There is one holder of unquoted equity performance rights to ordinary shares, Dr Richard Treagus, who holds equity performance rights to 9,615,385 shares.

Substantial Security Holders	Number of ordinary shares
Langley Alexander Walker (through Auckland Trust Company Limited in its capacity as trustee)	255,528,027

Additional Information

continued

Twenty Largest Holders of ordinary shares:	Number of ordinary shares	% holding
AUCKLAND TRUST COMPANY LIMITED	247,297,175	16.13%
UBS NOMINEES PTY LTD	71,285,094	4.65%
ESSEX CASTLE LIMITED	55,812,684	3.64%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	46,705,729	3.05%
UBS NOMINEES PTY LTD	40,866,650	2.67%
NEUREN TRUSTEE LIMITED	40,000,000	2.61%
CAMERON RICHARD PTY LTD	38,854,230	2.53%
K ONE W ONE LIMITED	32,611,730	2.13%
CITICORP NOMINEES PTY LIMITED	29,377,521	1.92%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	28,592,263	1.87%
SMITHLEY SUPER PTY LTD	26,000,000	1.70%
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	21,261,720	1.39%
ROXTRUS PTY LIMITED	19,000,000	1.24%
NATIONAL NOMINEES LIMITED	18,084,755	1.18%
LINWIERIK SUPER PTY LTD	15,876,086	1.04%
BNP PARIBAS NOMS PTY LTD	12,420,409	0.81%
CENTRALO LIMITED	11,925,508	0.78%
CATO HOLDING COMPANY	11,882,338	0.78%
STUART ANDREW PTY LTD	11,674,573	0.76%
BRISPOT NOMINEES PTY LTD	10,982,589	0.72%
	790,511,054	**51.57%**

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neuren

pharmaceuticals

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