Neuren Pharmaceuticals Limited

Appendix 4D Half-Year Financial Report

30 June 2017

Name of entity

Neuren Pharmaceuticals Limited

ABN	Half-year ended
72 111 496 130	30 June 2017

1. Reporting Period

Neuren Pharmaceuticals Limited ("Neuren" or the "Company") presents this financial report, including the interim consolidated financial statements, for the six months ended 30 June 2017, with the six months ended 30 June 2016 as the comparative period.

2. Results for announcement to the market

	30 June 2017 $'000	30 June 2016 $'000	% Change
2.1 Operating revenue	19	306	(93.8)%
2.2 Loss after tax from ordinary activities	(3,552)	(7,378)	(51.9)%
2.3 Net loss attributable to members	(3,552)	(7,378)	(51.9)%
2.4 Dividends and franked amount per security	nil	Nil	n/a
2.5 Dividend record date	n/a	n/a	n/a

2.6 Explanation of results:

The consolidated net loss after tax decreased from $7.4 million to $3.6 million, due to the following:

- A decrease of $4.6 million in research and development costs, resulting from completion of the Rett syndrome pediatric clinical trial in March 2017, and completion of expenditure on the Fragile X syndrome clinical trial in the prior period, together with lower expenditure on manufacturing scale-up and toxicity studies; and
- A decrease of $0.2 million in the non-cash share based payments expense as instruments reached the end of required vesting periods of service; offset by:
- A decrease of $0.3 million in interest and grant income due to lower cash balances and the completion in 2016 of the grant funding from rettsyndrome.org; and
- Income tax benefit of $0.9 million in the six months to 30 June 2016, being receipt of the R&D Tax Incentive in respect of 2015

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

3. Net Tangible Assets per Security

	June 2017	June 2016
Net tangible assets per share	$ 0.002	$ 0.004

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

None.

5. Details of dividends

Not applicable.

6. Details of dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

None.

8. Accounting standards

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

9. Auditors review

The interim financial statements have been subject to independent review by the Company's auditors. The review report, which is included in the attached Interim Report, is unqualified and contains an emphasis of matter paragraph that draws attention to the disclosures regarding the going concern basis that are contained in note 1 to the interim financial statements.

2017
Interim Report
Neuren Pharmaceuticals Limited

Incorporated in New Zealand
ABN 72 111 496 130

Directors' Report

The Directors submit the financial report of Neuren Pharmaceuticals Limited for the six months ended 30 June 2017.

Directors' details

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

Dr Richard Treagus (Executive Chairman)
Mr Larry Glass (Executive Director and Chief Science Officer)
Mr Bruce Hancox (Non-executive Director)
Dr Trevor Scott (Non-Executive Director)

Review of Operations

Neuren Pharmaceuticals Limited ("Neuren" or the "Company"), and its subsidiaries (collectively the "Group") is a listed biopharmaceutical company, incorporated in New Zealand and listed on the Australian Securities Exchange, focusing on the development of drugs to treat neurodevelopmental disorders, neurodegenerative disorders and brain injury.

Key developments in the business during the six months to 30 June 2017 included:

- In March 2017, Neuren announced top-line results from its Rett syndrome Phase 2 pediatric clinical trial. The highest dose of trofinetide achieved statistically significant clinical benefit compared with placebo for each of three syndrome-specific efficacy measures, the Rett Syndrome Behaviour Questionnaire (p=0.042), the Clinical Global Impression of Improvement (p=0.029) and the Rett Syndrome Domain Specific Concerns (p=0.025). These results provided strong evidence of biological activity of the high dose across multiple symptom areas, indicating the potential for disease modification rather than simply addressing isolated symptoms. In addition, trofinetide was well tolerated and had a good safety profile in these younger subjects, with no dose-limiting effects observed.

- In May 2017, Neuren announced the grant of two new patents in the United States and Europe concerning the use of trofinetide to treat autism spectrum disorders. The new patents expire in 2032.

As detailed in Note 6 to the financial statements, in July 2017 Neuren completed a placement of new shares, raising $11.5 million at 6.2 cents per share, to secure funding for key preparatory activities for a Rett syndrome Phase 3 trial.

Neuren has an End of Phase 2 Type B Meeting with the US Food and Drug Administration (FDA) Division of Neurology Products scheduled in October 2017, to discuss the remaining development for trofinetide to treat Rett syndrome, including the Phase 3 trial design. Following the meeting, the Directors will consider options, including partnering, to fund and execute the Phase 3 trial.

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

The Group's net loss after income tax for the six months ended 30 June 2017 was $3.5 million (six months ended 30 June 2016: $7.4 million). The reduction of $3.9 million was mainly due to the following:

- A decrease of $4.6 million in research and development costs, resulting from completion of the Rett syndrome pediatric clinical trial in March 2017, and completion of expenditure on the Fragile X syndrome clinical trial in the prior period, together with lower expenditure on manufacturing scale-up and toxicity studies;

- A decrease of $0.2 million in the non-cash share based payments expense as instruments reached the end of required vesting periods of service;

- A decrease of $0.3 million in interest and grant income due to lower cash balances and the completion in 2016 of the grant funding from rettsyndrome.org; and

- Income tax benefit of $0.9 million in the six months to 30 June 2016, being receipt of the R&D Tax Incentive in respect of 2015.

The net loss per share for the six months to 30 June 2017 was 0.2 cents (six months to 30 June 2016: 0.4 cents) based on a weighted average number of shares outstanding of 1,841 million (six months to 30 June 2016: 1,767 million).

Directors' Report

Cash reserves at 30 June 2017 were $1.3 million (31 December 2016: $5.1 million). Net cash used in operating activities was $3.6 million (six months to 30 June 2016: $8.4 million). The reduction of $4.8 million was mainly due to the following:

- Payments to other suppliers decreased by $3.9 million, due to the completion of the Rett syndrome and Fragile X syndrome clinical trials and reduced payments for manufacturing and toxicity studies;

- R&D Tax Incentive of $1.0 million was received in respect of 2016;

- Receipts from interest and grant income decreased by $0.3 million, due to lower cash balances and the completion in 2016 of the grant funding from rettsyndrome.org; and

- Payments to employees and directors decreased by $0.2 million, due to lower staff numbers and reductions in remuneration for directors and management.

Corporations Act, Australia - Directors' declaration

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

The accompanying financial statements of Neuren and its subsidiaries for the six months ended 30 June 2017 and the notes to those financial statements:

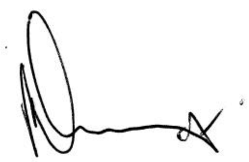
- comply with the XRB A1 (Tier 1) standards issued by the New Zealand Accounting Standards Review Board; and

- give a true and fair view of the financial position as at 30 June 2017 and of the performance for the six months ended on that date of Neuren and its subsidiaries.

In the Directors' opinion there are reasonable grounds to believe that Neuren will be able to pay its debts as and when they become due and payable.

This report is signed and the declaration is made in accordance with a resolution of the Board of Directors dated 24 August 2017.

On behalf of the Board



Dr Richard Treagus
Executive Chairman

Consolidated Interim Statement of Comprehensive Income

(Unaudited)
for the six months ended 30 June 2017

Group	**Six months Jun 2017 $'000**	**Six months Jun 2016 $'000**
Revenue - interest income	19	144
Other income - grants	-	162
Total revenue and other income	19	306
Research and development costs	(2,081)	(6,674)
Corporate and administrative costs	(1,071)	(1,119)
Share based payments expense	(318)	(522)
Foreign exchange loss	(101)	(232)
Loss before income tax	(3,552)	(8,241)
Income tax benefit	-	863
Loss after income tax for the period	(3,552)	(7,378)
Other comprehensive income (expense), net of tax		
Exchange differences on translation of foreign operations	33	29
Total comprehensive loss for the period	(3,519)	(7,349)
Loss after tax attributable to equity holders of the company	(3,552)	(7,378)
Total comprehensive loss attributable to equity holders of the company	(3,519)	(7,349)
Basic and diluted loss per share	0.2 cents	0.4 cents

The accompanying notes form part of this financial report.

Consolidated Interim Statement of Financial Position (Unaudited)

As at 30 June 2017

Group	Unaudited as at Jun 2017 $'000	Audited as at Dec 2016 $'000
ASSETS		
Current Assets:		
Cash and cash equivalents	1,273	5,051
Current tax receivable	-	981
Trade and other receivables	156	21
Total current assets	1,429	6,053
Non-current assets:		
Property, plant and equipment	10	12
Intangible assets	108	145
Total non-current assets	118	157
TOTAL ASSETS	1,547	6,210
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	565	2,027
Total liabilities	565	2,027
EQUITY		
Share capital	112,829	112,829
Other reserves	(9,941)	(10,292)
Accumulated deficit	(101,906)	(98,354)
Total equity attributable to equity holders	982	4,183
TOTAL LIABILITIES AND EQUITY	1,547	6,210

The accompanying notes form part of this financial report.

Consolidated Interim Statement of Changes in Equity (Unaudited)

for the six months ended 30 June 2017

Group	Attributable to Equity Holders				
	Share Capital	**Share Option Reserve**	**Currency Translation Reserve**	**Accumulated Deficit**	**Total Equity**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Equity as at 1 January 2016	111,912	2,889	(10,653)	(89,746)	14,402
Share based payments		522			522
Total comprehensive gain / (loss) for the period			29	(7,378)	(7,349)
Equity as at 30 June 2016	111,912	3,411	(10,624)	(97,124)	7,575
Equity as at 1 January 2017	112,829	367	(10,659)	(98,354)	4,183
Share based payments		318			318
Total comprehensive gain / (loss) for the period			33	(3,552)	(3,519)
Equity as at 30 June 2017	112,829	685	(10,626)	(101,906)	982

The accompanying notes form part of this financial report.

Consolidated Interim Cash Flow Statement (Unaudited)

for the six months ended 30 June 2017

Group	Six months Jun 2017 $'000	Six months Jun 2016 $'000
Cash flows from operating activities:		
Receipts from grants	-	162
Interest received	24	150
GST refunded	39	76
Payments to employees and directors	(806)	(1,035)
Payments to other suppliers	(3,806)	(7,746)
R&D Tax Incentive refund	981	-
Net cash used in operating activities	(3,568)	(8,393)
Cash flows from investing activities:		
Purchase of property, plant and equipment	-	(10)
Net cash used in investing activities	-	(10)
Cash flows from financing activities:		
Refundable payment for share issue expenses	(150)	-
Net cash from financing activities	(150)	-
Net decrease in cash held	(3,718)	(8,403)
Effect of exchange rate changes on cash balances	(60)	(107)
Cash at the beginning of the period	5,051	16,642
Cash at the end of the period	1,273	8,132
Reconciliation with loss after income tax:		
Loss after income tax	(3,552)	(7,378)
Items requiring adjustment:		
Depreciation and amortisation	39	41
Share based payments	318	522
Foreign exchange loss	93	136
Movements in working capital	(466)	(1,714)
Net cash used in operating activities	(3,568)	(8,393)

The accompanying notes form part of this financial report.

Nature of business

Neuren Pharmaceuticals Limited ("Neuren" or the "Company"), and its subsidiaries (collectively the "Group") is a biopharmaceutical company focusing on the development of drugs to treat neurodevelopmental disorders, neurodegenerative disorders and brain injury.

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

These consolidated interim financial statements have been approved for issue by the Board of Directors on 24 August 2017.

1. Summary of significant accounting policies

Basis of preparation

These general-purpose interim financial statements are for the six months ended 30 June 2017 and have been prepared in accordance with, and comply with, generally accepted accounting practice in New Zealand, International Accounting Standard 34 and NZ IAS 34 *Interim Financial Reporting*.

The Company is a Tier 1 for-profit entity under the External Reporting Board Accounting Standards Framework.

There have been no significant changes in accounting policies during the current period. The accounting policies that materially affect the measurement of the Statement of Comprehensive Income, Statement of Financial Position and the Statement of Cash Flows have been applied on a basis consistent with those used in the audited financial statements for the year ended 31 December 2016 and the unaudited financial statements for the six months ended 30 June 2016. There is no cyclical seasonality of interim operations.

The functional and presentation currency of the Company and Group is Australian dollars.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this interim report is to be read in conjunction with the annual report for the year ended 31 December 2016.

Going concern assumption

The Directors monitor the Group's cash position and initiatives to ensure that adequate funding continues to be available for the Group to meet its business objectives. The Group recorded a loss after tax of $3.5 million for the period ended 30 June 2017. The Group also had negative operating cash flows for the period of $3.6 million. As disclosed in Note 6 to the Interim Financial Statements, in July 2017 Neuren completed a new share placement, under which proceeds of $3.0 million were received in July 2017 and the remaining $8.5 million was invested in a Sharing Agreement with Lanstead Capital L.P.

1. Summary of significant accounting policies (continued)

Neuren's economic interest from the Sharing Agreement will be determined and payable in 18 monthly settlements commencing in September 2017, each of which is dependent upon the volume weighted average price at which Neuren's shares are traded during the 20 days prior to settlement (VWAP). If the VWAP for each settlement is equal to 8.86 cents per share (Benchmark Price), Neuren will receive $8.5 million in total. If the VWAP for each settlement is higher than the Benchmark Price, Neuren will receive proportionately more than $8.5 million, with no upper limit. If the VWAP for each settlement is lower than the Benchmark Price, Neuren will receive proportionately less than $8.5 million. As a result, if the VWAP is significantly lower than the benchmark price over the settlement period, the settlements received may not be sufficient to enable the Group to meet its obligations as they fall due. If this outcome occurred, management would take actions to reduce costs and seek to obtain additional funding as required.

The dependency on the VWAP and the potential impact on future settlements under the Sharing Agreement gives rise to the existence of a material uncertainty that may cast significant doubt over the ability of the Group to continue as a going concern. However, after assessing this material uncertainty, as well as considering the potential impact of a range of strategic options following the End of Phase 2 meeting with the US Food and Drug Administration in October 2017, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing these financial statements. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary if the Directors determine that the going concern basis should not be adopted.

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted

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

NZ IFRS 9 'Financial Instruments' (effective from 1 January 2018) addresses classification and measurement of financial assets and liabilities and is available for early adoption immediately. NZ IFRS 9 replaces the multiple classification and measurement models in IAS 39 'Financial Instruments: Recognition and Measurement' with a single model that has only two classification categories: amortised cost and fair value. The consolidated entity has yet to assess the potential impact of NZ IFRS 9 on its financial statements.

NZ IFRS 16 'Leases' (effective from 1 January 2019) removes the distinction between operating and finance leases for lessees and brings almost all leases on balance sheet, recognising a right-of-use asset and a corresponding lease liability. The group has yet to assess the potential impact of NZ IFRS 16 on its financial statements, although the standard is not expected to have a material impact.

1. Summary of significant accounting policies (continued)

There are no other standards, amendments, or interpretations to existing standards, issued but not yet effective, which are expected to impact the Group. There were no new standards, adopted by the Group for the first time for the financial year beginning on or after 1 January 2017, which had a material impact on the Group.

2. Loss before income tax

The loss before income tax includes:

Group	Jun 2017 $'000	Jun 2016 $'000
Depreciation	(3)	(5)
Amortisation of intangible assets		
- Intellectual property	(36)	(36)
Foreign exchange loss on revaluation of forward contracts	-	(9)

3. Share capital

Consolidated	6 months Jun 2017 Shares	Year Dec 2016 Shares
Issued share capital		
Ordinary shares on issue at beginning of period	1,841,929,015	1,767,003,738
Shares issued on exercise of Equity Performance Rights	-	12,925,277
Shares issued on option exercise	-	62,000,000
Ordinary shares on issue at end of period	1,841,929,015	1,841,929,015

At 30 June 2017 and 31 December 2016 Equity Performance Rights to acquire 1,308,901 ordinary shares at nil exercise price were outstanding.

4. Commitments and contingencies

(a) Operating leases

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

(b) Legal claims

The Group had no significant legal or other contingencies as at 30 June 2017, or 31 December 2016.

(c) Capital commitments

The Company was not committed to the purchase of any property, plant or equipment as at 30 June 2017 or 31 December 2016.

5. 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.

6. Events after balance date

In July 2017, Neuren completed a placement of new ordinary shares raising $11.5 million at 6.2 cents per share, comprising $10 million from UK-based fund Lanstead Capital, with supporting investments totalling $1.5 million from Rettsyndrome.org and Neuren's directors and management. Neuren received $3 million in July 2017, comprising $1.5 million from Lanstead and $1.5 million from the other investors.

The remaining $8.5 million from Lanstead has been invested in a Sharing Agreement with Lanstead, which enables Neuren to secure much of the potential upside from anticipated near term news flow. Neuren's economic interest from the Sharing Agreement will be determined and payable in 18 monthly settlements commencing in September 2017, each of which is dependent upon the volume weighted average price at which Neuren's shares are traded during the 20 days prior to settlement (VWAP). If the VWAP for each settlement is equal to 8.86 cents per share (Benchmark Price), Neuren will receive $8.5 million in total. If the VWAP for each settlement is higher than the Benchmark Price, Neuren will receive

6. Events after balance date (continued)

proportionately more than $8.5 million, with no upper limit. If the VWAP for each settlement is lower than the Benchmark Price, Neuren will receive proportionately less than $8.5 million.

In July 2017, 161.3 million shares were issued to Lanstead ($10 million at 6.2 cents per share) and 11.9 million shares were issued to Rettsyndrome.org and management ($740,000 at 6.2 cents per share). The issue of 12.3 million shares ($760,000 at 6.2 cents per share) to Neuren's directors is subject to obtaining approval at a special meeting of shareholders on 29 August 2017. In consideration of the Sharing Agreement with Lanstead, 8.1 million additional ordinary shares were issued to Lanstead, which is 5% of the shares issued to Lanstead in respect of the $10 million investment.

As at the date of these consolidated interim financial statements there were no other events arising since 30 June 2017 that require disclosure.

Independent review report

to the shareholders of Neuren Pharmaceuticals Limited

Report on the Consolidated Interim financial statements

We have reviewed the accompanying Group financial statements of Neuren Pharmaceuticals Limited (the Company) on pages 3 to 11, which comprise the consolidated interim statement of financial position as at 30 June 2017, and the consolidated interim statement of comprehensive income, the consolidated interim statement of changes in equity and the consolidated interim cash flow statement for the period ended on that date, and a summary of significant accounting policies and selected explanatory notes. The Group comprises the Company and the entities it controlled at 30 June 2017 or from time to time during the financial year.

Directors' responsibility for the Consolidated Interim financial statements

The Directors of the Company are responsible on behalf of the Company for the preparation and presentation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) 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.

Our responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

We are independent of the Group. Other than in our capacity as auditors, we have no relationship with, or interests in, the Group.

Material uncertainty related to going concern

We draw attention to Note 1 to the consolidated interim financial statements, which discloses that the Group recorded a loss after tax of $3.5 million for the period ended 30 June 2017. The Group also had negative operating cash flows for the period of $3.6 million.

In July 2017, the Company completed a placement of new ordinary shares amounting to $11.5 million with $3 million received in cash. The remaining $8.5 million is receivable under the terms of a Sharing Agreement in 18 monthly installments commencing in September 2017. This amount however is dependent on the future share price of the Company relative to a benchmark price over the 18 month period. Further details of this Sharing Agreement are disclosed in Note 6 to the financial statements.

If the share price of the Company over the 18 month period is significantly lower than the benchmark price, the amount of funding received under the Sharing Agreement may not be sufficient to enable the Group to meet its obligations as they fall due. Should this happen, the management would take actions to reduce costs and seek additional funding. This gives rise to a material uncertainty that may cast significant doubt over the ability of the Group to continue as a going concern. Our opinion is not modified in respect of this matter.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these consolidated interim financial statements of the Company are not prepared, in all material respects, in accordance with NZ IAS 34.

Who we report to

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

For and on behalf of:

PricewaterhouseCoopers.

Chartered Accountants
24 August 2017

Auckland