

**NEUREN PHARMACEUTICALS LIMITED**  
1181152 / ARBN 111 496 130

**RIGHTS ISSUE  
LETTER OF OFFER**

**Dated: 14 June 2011**

For a 1 for 1 renounceable rights issue by Neuren Pharmaceuticals Limited to existing Australian and New Zealand resident Shareholders of 617,887,310 ordinary shares.

**Record date: 27 June 2011**

This is an important document and you should read it carefully.

The Offer carries an Entitlement for the Eligible Shareholders as at the Record Date (7.00pm AEST on 27 June 2011). All Eligible Shareholders are entitled to apply for one New Share for each Share they own at the Record Date. The New Shares are offered at A\$0.013 each.

Shareholders who are not resident in Australia or New Zealand are not eligible to accept the Offer.

All Entitlements are Renounceable, which means that they can be transferred or sold. If you decide to apply for New Shares, please complete the Entitlement and Acceptance Form enclosed.

## IMPORTANT INFORMATION

1. This Letter of Offer is dated 14 June 2011.
2. The Offer of New Shares in this Letter of Offer is only available for acceptance by Eligible Shareholders. This Letter of Offer does not constitute an offer in any place in which or to any person to whom, it would be unlawful to make such an offer.
3. No person is authorised to give any information or to make any representation in connection with the Offer that is not contained in this Letter of Offer. Any information or representation that is not contained in this Letter of Offer may not be relied on as having been authorised by Neuren in connection with the Offer.
4. This is a Letter of Offer for an Offer of quoted securities (as defined in the Corporations Act) of Neuren and has been prepared in accordance with section 708AA of the Corporations Act. In broad terms, section 708AA relates to rights issues by certain companies that do not require the provision of a prospectus or other disclosure document. Accordingly, the level of disclosure in this Letter of Offer is significantly less than that required in a prospectus. Eligible Shareholders should therefore rely upon their own knowledge of Neuren, refer to disclosures already made by it to ASX, and refer to their professional adviser before deciding whether to accept the Offer.
5. Eligible Shareholders will receive an Entitlement and Acceptance Form with this Letter of Offer.
6. The information contained in this Letter of Offer is important and should be read in full.
7. Capitalised terms used in this Letter of Offer have defined meanings, which appear in the glossary on page 25.

## CONTENTS

<i>RIGHTS ISSUE OVERVIEW AND KEY DATES</i> .....	2
<i>CHAIRMAN'S LETTER</i> .....	3
<i>ACTION TO BE TAKEN BY ELIGIBLE SHAREHOLDERS</i> .....	4
<i>PROSPECTS</i> .....	6
<i>SUMMARY OF THE OFFER</i> .....	11
<i>DETAILS OF THE OFFER</i> .....	12
<i>PURPOSE AND EFFECT OF THE OFFER</i> .....	20
<i>ISSUE EXPENSES</i> .....	21
<i>DESCRIPTION OF SHARES</i> .....	21
<i>COMPANY DIRECTORY</i> .....	24
<i>DEFINITIONS AND INTERPRETATIONS</i> .....	25

## RIGHTS ISSUE OVERVIEW AND KEY DATES

The Company is offering 617,887,310 ordinary shares by way of a 1 for 1 pro-rata renounceable rights issue ("Rights Issue") to Shareholders with a registered address in Australia or New Zealand recorded on the Company's share register at 7:00 pm AEST, 27 June 2011 ("Eligible Shareholders"). Eligible Shareholders will be entitled to subscribe for 1 New Share for every 1 Existing Share held at a subscription price of A\$0.013 per New Share ("Issue Price"). The number of New Shares which an Eligible Shareholder is entitled to subscribe for is set out in their personalised Entitlement and Acceptance Form which accompanies this Letter of Offer. The Issue Price is payable in full on application. New Zealand resident Shareholders may alternatively pay in New Zealand dollars at a price of NZ\$0.017 per New Share (based on an exchange rate fixed by Neuren of NZ\$1.00 equals \$0.7651 Australian dollars).

The proceeds from the Rights Issue will be used to fund corporate overhead and operating costs through 2012 when Neuren expects to have completed the two ongoing Phase 2 trials of NNZ-2566 and Motiva®. Proceeds also will be used to expand opportunities for NNZ-2566, Motiva® and other development programmes wherever possible.

Entitlements to New Shares pursuant to the Rights Issue ("Rights") are Renounceable. This enables Eligible Shareholders who do not wish to subscribe for some or all of their Entitlement to New Shares under the Rights Issue to sell their respective Rights. Rights trading commences on ASX on 21 June 2011 and will cease trading on 7 July 2011. Eligible Shareholders who do not exercise or sell their Entitlement will receive no value for their Rights. In accordance with ASX Listing Rules the Company has arranged to issue the Rights that Overseas Shareholders would otherwise have been entitled to exercise (the "Overseas Rights") to a nominee who will endeavour to sell the Overseas Rights, hold the proceeds on trust, and account to the Overseas Shareholders for the proceeds on a pro rata basis net of costs.

Eligible Shareholders who do not currently hold a marketable parcel of securities may wish to take this opportunity to increase their holding of Shares in the Company to a marketable parcel, either by accepting their Entitlement or, if further Shares are required to amount to a marketable parcel, buying Rights on the ASX market. A marketable parcel of securities under the ASX Listing Rules is a parcel of securities with a value of not less than A\$500.

### Key Dates and Times

Announcement of Rights Issue	Lodgement of Letter of Offer and ASX notices	15 June 2011
Ex Date	The date on which Neuren shares commence trading without the entitlement to participate in the Offer	21 June 2011
Rights Trading Opens	The day when Eligible Shareholders are entitled to trade their rights	21 June 2011
Record Date	The date for determining entitlements of shareholders to participate in the Offer (at 7:00pm AEST)	27 June 2011
Letter of Offer Sent to Shareholders	Despatch of Letter of Offer and Entitlement and Acceptance Form	29 June 2011
Rights Trading Ceases	The day on which Eligible Shareholders will no longer be able to trade their rights	7 July 2011
New Shares Quoted on Deferred Settlement Basis	The day on which New Shares commence trading on a deferred settlement basis	8 July 2011
Closing Date	The last day for receipt of applications (at 5:00pm AEST)	14 July 2011
Shortfall Notification Date	Notification to ASX of under subscriptions	19 July 2011
Allotment/Issue Date	Date for the issue of New Shares	19 July 2011
Despatch Date	Despatch of holding statements for New Shares	22 July 2011

This timetable is indicative only. Subject to the Securities Act 1978 and the ASX Listing Rules, the Company may amend the dates and times specified at its discretion. Any changes to the timetable will be announced through ASX.

**CHAIRMAN'S LETTER**

Dear Shareholder,

In early May and June 2011 Neuren completed share placements amounting to A\$2 million to sophisticated and professional investors ("the Placements"). This Offer is being made to give Eligible Shareholders the opportunity to acquire New Shares at the same price as Shares issued in those Placements.

Accordingly, Neuren Pharmaceuticals Limited ("Neuren" or the "Company") is making this pro-rata rights issue offer of up to 617,887,310 new ordinary shares to its New Zealand and Australian resident Shareholders, at A\$0.013 per New Share for Australian resident Shareholders and NZ\$0.017 per New Share for New Zealand resident Shareholders (based on an exchange rate fixed by Neuren of NZ\$1.00 equals \$0.7651 Australian dollars). This Offer is not underwritten.

Approximately 342,372,239 of the New Shares are being offered to Australian resident Shareholders. Neuren is taking advantage of exemptions under Australian securities laws which means that a prospectus or disclosure document is not required in Australia for the purpose of making the Offer to Australian resident Shareholders. The exact number of New Shares being offered to Australian resident Shareholders will be determined on the Record Date based on the offer ratio of one New Share for every one existing Share held by Australian resident Shareholders. The terms of the Offer are the same for all Shareholders in Australia and New Zealand.

Your Entitlement to New Shares is set out in the enclosed Entitlement and Acceptance Form, and instructions on how to apply for your Entitlement are set out in the Letter of Offer on pages 4 to 5.

Neuren now has two Phase 2 clinical trials underway with NNZ-2566 and Motiva®, and proof of concept in vivo animal model testing is about to commence in our cancer programme with the three selected monoclonal antibodies targeting Trefoil Factors. These programmes are to a large extent funded by other parties. NNZ-2566 has been in development as a treatment for traumatic brain injury (TBI) under a collaborative research and development agreement between Neuren and the US Army since 2004 and the US Army has committed approximately US\$22 million to support the NNZ-2566 programme. Similarly, the current Motiva® trial is being funded by a A\$824,000 grant from the National Health and Medical Research Council to the University of Western Australia, and the New Zealand Breast Cancer Research Trust continues to be a supportive partner in funding the cancer programme through our subsidiary, Perseis Therapeutics.

Further details on the status of our pipeline are set out in the "Prospects" section on pages 6 to 10.

The proceeds from the Rights Issue will be used to fund corporate overhead and operating costs through 2012 when we expect to have completed the two ongoing Phase 2 trials of NNZ-2566 and Motiva®. Proceeds also will be used to expand opportunities for NNZ-2566, Motiva® and other development programmes wherever possible.

The Board recommends this Offer to you and thanks Shareholders for their continued support of the Company.

Yours sincerely



**Dr Robin Congreve**  
Chairman

## ACTION TO BE TAKEN BY ELIGIBLE SHAREHOLDERS

The Entitlement and Acceptance Form (which accompanies this Letter of Offer) sets out the number of Rights to which you are entitled.

The Rights are Renounceable which means that Eligible Shareholders who do not wish to take up all of their Entitlements may subscribe for only those Rights they wish to acquire, and renounce and sell the balance. Those Rights may be traded on the ASX from 21 June 2011 to 7 July 2011 (being the "Rights Trading Period").

If you are interested in acquiring more New Shares than the number set out in the Entitlement and Acceptance Form enclosed with this Letter of Offer, you may buy further Rights on the ASX market.

Listed below are the steps to be taken if you wish to:

- Accept your Entitlement in full; or
- Sell your Entitlement in full; or
- Accept part of your Entitlement and sell the balance.

### How to accept your Entitlement in full

If you want to accept ALL of your Entitlement, you should:

- Complete the enclosed Entitlement and Acceptance Form; and
- Send your completed Entitlement and Acceptance Form together with your cheque made payable to "Neuren Pharmaceuticals Limited Trust Account" and crossed "Not Negotiable" for the amount of the acceptance money shown on your Entitlement and Acceptance Form, to:

**Mail to:**

The Neuren Share Offer  
Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235

or

**Deliver in person to:**

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000 *(do not use this address for mailing purposes)*

**The completed Entitlement and Acceptance Form and payment must be received not later than 5.00pm AEST, 14 July 2011.**

### How to sell your Entitlement in full

If you want to sell ALL of your Entitlement, your Rights may be sold on the ASX through a share broker. If you wish to sell ALL of that Entitlement you should instruct your broker to sell the number of Rights specified on your Entitlement and Acceptance Form.

Rights may only be traded in the Rights Trading Period.

It is not certain that you will be able to sell your Rights. This will depend on the share trading price, volume of Rights offered for sale and purchase and the price at which you are seeking to sell your Rights.

**If you wish to sell your Rights, you must do so before Rights trading ceases on 7 July 2011.**

## How to accept part of your Entitlement only

If you wish to take up part of your Entitlement and sell the balance of that Entitlement on the ASX through a broker, you should:

- Instruct your broker to sell the number of Rights you wish to renounce;
- Complete the enclosed Entitlement and Acceptance Form for the number of New Shares you wish to accept;
- Calculate the "Application Monies Enclosed" as the amount payable based on the Issue Price per New Share (A\$0.013) multiplied by the number of New Shares you wish to accept from your Entitlement, and rounded up to the nearest cent; and
- Send your completed Entitlement and Acceptance Form, together with your cheque for payment in full for the number of New Shares you have decided to accept directly to:

**Mail to:**

The Neuren Share Offer  
Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235

**or**

**Deliver in person to:**

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000 **(do not use this address for mailing purposes)**

**If you wish to sell any of your Rights, you must do so before Rights trading ceases on 7 July 2011.**

**If a renunciation and an acceptance are given by a Shareholder in relation to the same Rights, effect shall be given to the renunciation in priority to the acceptance.**

**If you do nothing, you will not get any New Shares. The Directors recommend that you accept all or part of your Entitlement, particularly if your current shareholding is not a marketable parcel and by accepting your Entitlement or buying further Rights your shareholding will amount to a marketable parcel. However, if you wish to sell any of your Rights, you must do so before Rights trading ceases on 7 July 2011.**

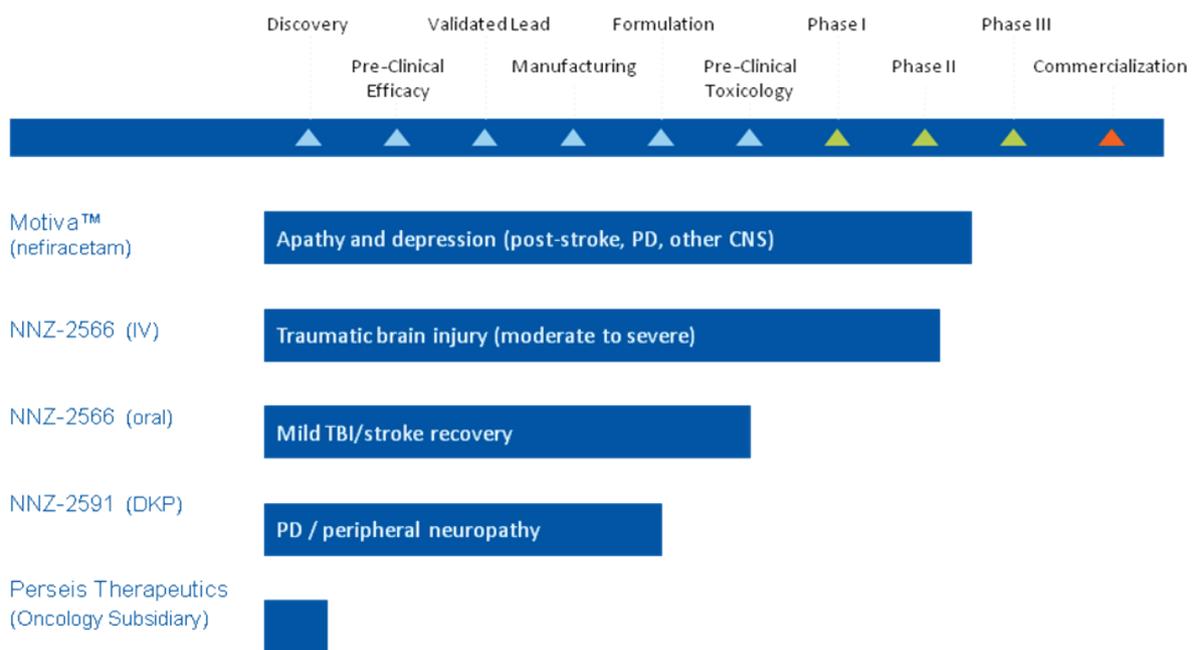
**PROSPECTS**

**Overview**

Neuren is an ASX listed biopharmaceutical company developing new drugs for neurological disorders and cancer. In neurology, the Company’s compounds are either derived from naturally-occurring proteins that prevent brain damage by protecting cells from inflammation or synthetic compounds designed to support the normal function of brain cells. The cancer programme, which is managed by Neuren’s subsidiary Perseis Therapeutics Limited, focuses on breast and other cancers by targeting proteins produced by cancer cells that cause uncontrolled growth, spread and resistance to chemotherapy. In both neurology and cancer, the indications that we are targeting represent significant unmet need and commercial opportunity. Virtually all of the direct costs of the neurology programmes are covered by grants — US\$22.8 million from the US Army and A\$823,000 from the Australian National Health and Medical Research Council. The R&D costs of the cancer programme are covered by a NZ\$1.18 million equity investment in Perseis by the New Zealand Breast Cancer Research Trust.

**Product Pipeline**

Our lead product candidates include two compounds — NNZ-2566 and Motiva® — in clinical trials, one compound — NNZ-2591 — in preclinical development and a discovery-stage programme in cancer. The following exhibit summarizes our product candidate pipeline. However, there can be no assurance that we will be able to develop, complete development or commercialise any of the following product candidates on a timely basis or at all.



**NNZ-2566**

NNZ-2566 is a synthetic analogue of the n-terminal tripeptide of IGF-1, a neuroprotective molecule produced by the brain following injury. NNZ-2566 is in a Phase 2 trial in patients with moderate to severe traumatic brain injury (TBI). The first clinical trial site at the University of Miami became active in late April 2010 and enrolled the first patient in early June 2010. Eleven sites in the United States are actively screening patients. Including both the Phase 1 safety studies and the Phase 2 trial, NNZ-2566 has now been administered to approximately 80 people. To this point, the drug has been well-tolerated and the excellent safety profile developed in preclinical and Phase 1 studies appears to be carrying over to patients. The independent Data Safety and Monitoring Committee (DSMC) has reviewed safety data on cohort 1 and recommended progression to cohort 2. Enrolment of patients into cohort 2 is underway.

Patient enrolment had been expected to begin slowly and to ramp up as new sites were added and study investigators became more familiar with the protocol. However, the rate at which enrolment increased during cohort 1 was below expectations. This slower than anticipated pace resulted primarily from competing clinical trials (two large trials of progesterone in TBI patients)

and the challenge of obtaining informed consent from a family member (Legally Authorised Representative — LAR) within the established time window. To date, approximately 40% of otherwise eligible patients were not enrolled due to the unavailability of an LAR. Only four eligible patients have not been enrolled because an LAR declined consent. In response, the Company is increasing the total number of sites from 12 to 18, expanding the eligible age range from 18-70 years to 16-75 years, and seeking exception from informed consent (EFIC) under FDA and Institutional Review Board (IRB) guidance. EFIC will allow investigators to enrol patients if an LAR is not present prior to the scheduled start of drug administration. Approximately 15% of patients screened have been between 16-18 or 70-75 years old. Three new sites in the US are nearing activation and 5 centres in Australia have been selected to participate. The costs associated with increasing the number of participating clinical centres and obtaining EFIC will be covered by an additional US\$1.6 million in incremental funding from the US Army. This brings the total commitment to approximately US\$22.8 million, comprising US\$18.8 million awarded directly to Neuren and US\$4 million awarded through the Geneva Foundation.

The Phase 1 safety and PK study in females reinforced the excellent safety profile of NNZ-2566. With successful completion of the Phase 1 safety and PK study in females, we submitted a revised protocol to the FDA, the US Army's Human Research Protection Office (HRPO) and Neuren's IRB to include female patients in the trial. The amended protocol has been accepted by FDA and approved by the Company's IRB and we expect to begin enrolling female patients in cohort 2. Approximately 25% of patients screened in the study have been female. We are confident that the measures outlined above will significantly increase the pace of enrolment to at least that of the original plan. We are now forecasting that enrolment will be completed and results announced by the end of 2012.

The Company also has begun work on the studies and other tasks that will be necessary to initiate a Phase 3 trial with the intravenous formulation. These include additional safety pharmacology studies, reproductive toxicology studies and a cardiovascular safety study. Funding for these activities is included in the grant from the US Army. The additional safety studies include analysis of protein binding, liver enzyme (Cytochrome P-450) inhibition and interaction with transporter molecules. The safety studies have all been completed and confirm that there are no safety or toxicity related concerns in these areas. The feasibility study in rats conducted in preparation for the reproductive toxicology studies also has been completed and, again, the results show that the drug is safe and well-tolerated at doses well above those being administered during the trial. The reproductive toxicology studies are scheduled to be initiated later this year.

Undertaking these studies in parallel with the Phase 2 trials has enabled us to develop a plan to accelerate late-stage clinical development with the goal of initiating a Phase 3 trial almost immediately following the Phase 2, if the results from the Phase 2 trial are positive, with most of the regulatory requirements for a pivotal trial already met. The Company is engaged in discussions with potential partners and expects that the outcome of those discussions will become clear around the time that the Phase 2 trial is completed. We believe that the accelerated clinical development strategy adds significant value to the programme. Our plan is to evaluate NNZ-2566 as an intravenous treatment for moderate to severe TBI concurrently with oral administration of the drug in patients with mild TBI. To the best of our knowledge, this is the first programme to address TBI as a single indication across all degrees of severity. Mild and moderate TBI represent the majority of cases and often are associated with significant cognitive and other disabilities.

Neuren also has initiated an oral formulation development programme for NNZ-2566. In a paper published by Neuren scientists and colleagues<sup>1</sup>, NNZ-2566 administered orally three hours following an experimental stroke in rats significantly reduced brain damage. Studies conducted in late 2010 and completed in early 2011 show that a simple water-based (aqueous) formulation provides effective blood levels of the drug sooner after administration and is not affected by food intake. This is a very important development for a number of reasons:

- An aqueous product can be shipped and stored as a powder for reconstitution with water which will make it more suitable for use outside of a hospital in indications such as mild TBI for which intravenous delivery is not appropriate, as well as reduce manufacturing costs and improve shelf life.
- Development and validation of an aqueous formulation will require less time and lower R&D expenditures.
- Because NNZ-2566 is highly soluble in water, the total volume per dose will be lower which should reduce the risk of nausea and vomiting that can be a problem for patients with mild TBI and other neurological conditions.

<sup>1</sup> Bickerdike et al. NNZ-2566: A Gly-Pro-Glu analogue with neuroprotective efficacy in a rat model of acute focal stroke. *Journal of the Neurological Sciences* 2009.

- The bridging toxicology studies will be simpler, focused predominantly on gastrointestinal effects, and the overall toxicity profile for an oral form will largely be defined by data already submitted to the FDA from previously completed intravenous studies.
- Simple aqueous solutions are generally more suitable for formulation into a solid dosage form such as tablets or capsules.

We are currently planning to complete the required toxicology and Phase 1 safety/PK studies for the oral formulation by and to submit a protocol for a Phase 2 clinical trial in patients with mild TBI by the end of 2011. This Phase 2 trial is currently being designed in coordination with an advisory committee comprising academic experts and regulatory advisors and including input from US Army neuroscientists. Mild TBI represents a serious public health problem and a very large market with more than 800,000 cases per year in the US alone. With more than 70% of military TBI classified as mild, it also is a very high priority for the US Army which has provided US\$2.9 million in additional funding to support the oral development programme. An oral formulation for use in patients with mild TBI also would be applicable to other indications where oral dosing is preferable. These might include Rett Syndrome and other autism spectrum disorders, prophylactic neuroprotection following a stroke or transient ischaemic attack and prevention of hearing loss caused by chemotherapy or certain antibiotics.

The preclinical and Phase 1 safety studies with NNZ-2566 that led to approval of the IND and the current trial also enable potential use of the drug in conditions unrelated to TBI. One such indication is Rett Syndrome, a very severe and the most physically disabling form of the autism spectrum disorders. There is no approved drug for Rett Syndrome which occurs in approximately 1 of 10,000 female children worldwide. Rett Syndrome is caused by a mutation in a gene designated MeCP2. Different mutations in that gene also are believed to be associated with other autism spectrum and related developmental disorders. Researchers at the Massachusetts Institute of Technology have discovered that the n-terminal tripeptide of IGF-1 (Glypromate) partially reverses symptoms in a mouse model of Rett Syndrome<sup>2</sup>. Any treatment for Rett Syndrome in humans would be life long and an oral formulation would clearly be the most desirable means of administering a drug. Since NNZ-2566 is an analogue of Glypromate and has been shown to be orally available and active, we are presently evaluating whether NNZ-2566 offers promise as a therapy for Rett Syndrome. To that end, we established a research collaboration with the Rett Syndrome Research Trust (RSRT; <http://rsrt.org>) to evaluate NNZ-2566 in an established mouse model. This evaluation was conducted at no cost to Neuren and we retain all rights to the use of NNZ-2566 in this field. Preliminary results from a single dose study have shown an improvement in survival and long-term potentiation, a measure of signal transmission between neurons that is associated with memory. If these results are confirmed and once the most effective dose has been identified, the Company will seek to develop NNZ-2566 for Rett Syndrome with grant funding or through a commercial partnership. We are in active discussions with a number of third parties concerning establishment of a collaborative or licensing agreement.

## Motiva®

In late 2007, Neuren acquired rights to Motiva® (nefiracetam) through the purchase of Hamilton Pharmaceuticals. Motiva® is a molecule that belongs to a class of compounds called acetams, which includes approved drugs with sales of approximately A\$1.3 billion in 2010. Motiva® has already been tested in over 1,700 patients in Phase 1, 2 and 3 trials in Japan, the US and Canada and has an excellent safety profile. Motiva® has shown efficacy in a range of neuropsychiatric outcomes in six Phase 2 and 3 trials in post-stroke patients. In a Phase 2b trial in patients with post-stroke depression conducted in the US and Canada under a US IND, a very significant effect was observed in patients who also were diagnosed with apathy using the validated Apathy Scale (51.1% of patients)<sup>3</sup>. The trial was the first randomised, placebo-controlled study to show a significant effect of a pharmacologic intervention on apathy in this population. The most severely depressed patients also showed a significant improvement in depressive symptoms although the effect across all patients was not statistically significant<sup>4</sup>.

Apathy is a dysmotivational syndrome that manifests as a lack of interest, feeling, emotion or concern. Symptoms include diminished initiation and poor persistence of activity, lack of interest, indifference, low social engagement and blunted emotional responses. Although apathy has long been documented in the medical literature, due to accelerating research in the 1990s, it is now becoming widely recognized as a common neuropsychiatric disorder distinguishable from cognitive disorders such as dementia and mood disorders such as depression in much the same way that depression and anxiety have become diagnosable and pharmacologically addressable disorders. Apathy frequently occurs in patients who have had a stroke or

<sup>2</sup> Tropea et al. Partial reversal of Rett Syndrome-like symptoms in MeCP2 mutant mice. *Proceedings of the National Academy of Sciences* 2009.

<sup>3</sup> Robinson et al. Double-blind treatment of apathy in patients with post-stroke depression using nefiracetam. *Journal of Neuropsychiatry and Clinical Neurosciences* 2009.

<sup>4</sup> Robinson et al. Double-blind randomized treatment of post-stroke depression using nefiracetam. *Journal of Neuropsychiatry and Clinical Neurosciences* 2008.

traumatic brain injury as well as in those with chronic progressive neurodegenerative conditions such as Alzheimer's and Parkinson's disease. Apathy also complicates a broad range of other CNS conditions including depression, schizophrenia, brain tumours and infection. Taken together, it has been estimated that Apathy Syndrome affects some 10 million people in the US alone.

Patient Population	Prevalence of Apathy
Stroke	35%
Traumatic Brain Injury	50%
Alzheimer's disease	55%
Cognitive Impairment	40%
Major Depression	20%
Schizophrenia	67%
Parkinson's disease	40%

Source: BioStrategies, 2005 (prepared for Hamilton Pharmaceuticals)

Apathy can have a devastating impact on social and occupational function. With moderate to severe apathy, patients become unable to conduct activities of daily living involving basic functions like bathing, dressing, eating, getting in or out of bed or chairs, walking and using the toilet. The clinical consequences of apathy result in longer hospitalizations, poorer rehabilitation outcomes, greater disability, earlier institutionalization and increased caregiver stress. Not surprisingly, apathy has been associated with both a poor outcome of illness and a poor response to treatment. The economic and emotional consequences of apathy are burdensome not only to patients and caregivers but also to society. During the past two decades, generally accepted diagnostic criteria have evolved for apathy. Apathy rating scales have also been created and validated in various neurological and psychiatric populations, including major depression, Alzheimer's disease, stroke and Parkinson's disease.

Despite the high prevalence of apathy, current treatment options are limited, as there are no FDA-approved drugs for this disorder. At present, some physicians use stimulants (methylphenidate and dextroamphetamine) off-label despite limited evidence of efficacy. Dopamine agonists have also been proposed for the treatment of apathy, especially in Parkinson's disease patients, but again with limited data and no randomized, placebo-controlled trials. Acetylcholinesterase inhibitors have been used to treat apathy in patients with Alzheimer's disease, albeit with limited success. Commonly occurring adverse effects further limit use of these drugs.

In March 2010, we announced that a Phase 2 trial of Motiva® in 122 patients with post-stroke apathy had been funded by a grant to Prof. Sergio Starkstein, MD, PhD, Winthrop Professor and Head of the Neuropsychiatry Unit at Fremantle Hospital, Perth. The grant was awarded by the National Health and Medical Research Council (Australia) and covers virtually all costs associated with the study. From existing supplies of drug and placebo, we confirmed the stability of the product, re-packaged it for storage and distribution by the hospital pharmacy and shipped the drug to the University of Western Australia for use in the trial. The study has now been initiated and patients are being actively recruited and enrolled. A second clinical centre in Australia is in the process of initiating patient recruitment as well. If this study confirms the robust effect of Motiva® on post-stroke apathy, the Company believes that it will have an opportunity to enter into a beneficial commercial partnership to complete the pivotal trials necessary for registration of the drug for that indication.

## NNZ-2591

NNZ-2591 is the lead compound in Neuren's diketopiperazine (DKP) programme. The DKPs are cyclic dipeptides derived from a naturally occurring neuroprotective protein produced by the brain in response to injury. NNZ-2591 is in preclinical development as an oral therapy for a number of chronic neurological conditions including peripheral neuropathy, Parkinson's disease and cognitive impairment. Results from preclinical models of these conditions indicate that NNZ-2591 is a highly promising compound. It also is 100% orally available and preliminary safety studies suggest that it has an excellent safety profile. Together, these features support further development for chronic conditions.

## Cancer Research Programme

The Trefoil Factor (TFF) programme targeting breast and other cancers were assigned to Perseis Therapeutics, a Neuren subsidiary jointly established with the New Zealand Breast Cancer Research Trust (BCRT) in 2009. With initial funding of NZ\$1.18 million from the BCRT, Perseis initiated a programme to develop and test monoclonal antibodies against a range of cancers, focusing predominantly on TFF-1 and TFF-3. Trefoil Factors are estrogen-regulated proteins secreted by cancer cells that act as growth factors in a number of cancers, promoting growth and spread of tumours. TFF-1 is expressed in up to 68%

of breast cancers and its expression is negatively associated with survival in patients with metastatic disease. TFF-3 is strongly associated with tamoxifen resistance and inhibition of TFF-3 has been shown to be effective in treating tamoxifen resistant breast cancer cells in culture. Among patients treated with tamoxifen, survival is highly correlated with the level of TFF-3 expression. Tamoxifen is a widely used drug that blocks the growth-promoting effects of estrogen and is the world's leading hormonal drug for the treatment of breast cancer. Between 25% and 35% of women who take tamoxifen to prevent the recurrence of breast cancer fail to respond to the drug. This phenomenon creates a significant need and opportunity for a product that can reduce or prevent tamoxifen resistance.

In March 2010, we announced that a NZ\$250,000 grant was awarded to Perseis by the New Zealand Foundation for Research, Science and Technology to support the trefoil factor programme. That additional funding has enabled Perseis to expand the scope of its research which has included antibody discovery at three separate institutions in Australia, Singapore and China as well as screening against a phage display library of fully human antibody fragments. Antibodies are first screened in vitro against established breast, gastric and other cancer cell lines to select the most promising molecules. The lead antibodies then will be evaluated in animal models of cancer to validate the proof of concept of targeting TFFs as a cancer therapy. Once lead molecules have been selected and definitive proof of concept has been obtained, Perseis will have the option of seeking a partnership or continuing development on its own. Perseis is actively engaged in business development activities designed to raise the awareness of its targets and programme among potential partners. These efforts will be accelerated as we move toward the selection of lead molecules.

In the course of its antibody development programme Perseis has screened a large number of candidates from three pools of murine (mouse) antibodies produced in Australia, Singapore and China. However the lead antibodies to be taken into animal models originate from a human antibody fragment library. Initial screening of that library was conducted at the University of Queensland and further screening to determine which antibodies had the ability to inhibit the growth of human breast and gastric cancer cells growing in culture was conducted by Aragen Bioscience, Inc. in the United States. Fully human antibodies typically result in shorter and less expensive development and reduced risk of patient reactions to residual murine proteins in the finished drug product.

Monoclonal antibodies are the leading approach to molecular targeting, the fastest growing segment of biopharmaceuticals. Molecularly targeted drugs and biologics exhibit highly specific activity, often with better efficacy and fewer side effects than traditional drugs. In 2008, the global monoclonal antibody market was valued at US\$27.4 billion with an annual growth rate of 30.8%. By 2016, six of the top ten billion dollar drugs are predicted to be monoclonal antibodies.

### **Purpose of the Offer and Use of Proceeds**

The direct costs of the current clinical trial and cancer programmes are largely funded by grants and joint venture partners. In early May and June 2011 Neuren completed share placements amounting to A\$2 million to sophisticated and professional investors ("the Placements"). This Offer is being made to give Eligible Shareholders the opportunity to acquire New Shares at the same price as Shares issued in the Placements. The proceeds of the Placements and this Offer will be used to fund corporate overhead and operating costs through 2012 when Neuren expects to have completed the two ongoing Phase 2 trials of NNZ-2566 and Motiva®. Proceeds also will be used to expand opportunities for NNZ-2566, Motiva® and other development programmes wherever possible.

### **Special Trade Factors and Risks**

The general risks and special trade factors and risks which investors should consider before they make a decision whether or not to invest in the Company are set out under the heading "What are my risks?" on pages 16 to 18. Investors are reminded that a continuing risk facing the Company is that it may not be able to raise additional funding as and when needed in future. Further details on this risk are set out under the heading "Sufficiency of Funding" on page 17.

## SUMMARY OF THE OFFER

The information set out in this section is not intended to be comprehensive and should be read in conjunction with the full text of this Letter of Offer.

### Introduction

Neuren Pharmaceuticals Limited ("Neuren" or the "Company") is offering, on a renounceable basis, a maximum of 617,887,310 ordinary shares to the registered New Zealand and Australian resident holders of ordinary shares in the Company as at 27 June 2011 in the ratio of one new ordinary share ("New Share") for every one ordinary share held at that date ("Existing Share"), at a price of A\$0.013 per New Share payable in full on application. New Zealand resident Shareholders may alternatively pay in New Zealand dollars at a price of NZ\$0.017 per New Share (based on an exchange rate fixed by Neuren of NZ\$1.00 equals \$0.7651 Australian dollars). There is no consideration payable to the Company for the Rights.

Assuming this Offer is fully subscribed, the New Shares will represent 50.0% of Neuren's issued ordinary shares after allotment of the New Shares.

The New Shares will rank equally in all respects with the Company's Existing Shares. The Offer may be accepted in full or in part and there is no minimum level of Entitlement that must be accepted by a Shareholder in order to participate in the Offer.

Instructions on how to apply for the New Shares are set out under the headings "Action to be taken by Eligible Shareholders" on pages 4 and 5 and on the Entitlement and Acceptance Form itself.

An application will constitute an irrevocable offer by the applicant to acquire the number of New Shares specified in the application. If the full amount of the subscription monies payable for the New Shares subscribed for (the "Application Monies") is not paid on application or a cheque does not clear, an application may be rejected or an allocation cancelled.

As this Offer is being made to give Eligible Shareholders the opportunity to acquire New Shares at the same price as Shares issued in placements to sophisticated and professional investors on 4 May 2011 and 2 and 3 June 2011, the Directors have not established a minimum amount which must be raised before the Directors will accept subscriptions and allot New Shares under this Offer.

Pursuant to ASX Listing Rule 7.2 the Directors reserve the right to place within three months after the close of the Offer any New Shares which are not taken up either by Eligible Shareholders or holders of Rights under this Offer (the "Shortfall") to such persons and in such manner as the Directors consider equitable and in the interests of the Company, provided that the New Shares offered under the Shortfall are issued at not less than the price under the Offer and the terms and conditions of the issue of such New Shares are not materially more favourable to the persons to whom they are issued than the terms of this Offer.

### Rights are renounceable

The Rights granted in respect of Existing Shares held on the Record Date are Renounceable, meaning that they may be sold or transferred by New Zealand and Australian resident Shareholders. However, the ability to trade Rights will be dependent on there being a demand from prospective purchasers of the Rights.

The Rights of Shareholders resident in other countries will be dealt with as set out below under the heading "Eligible Shareholders and Overseas Shareholders" below. Trading in Rights is expected to take place on the ASX from 21 June 2011 and close on 7 July 2011.

### Eligible Shareholders and Overseas Shareholders

This Rights Issue is open only to Eligible Shareholders. Overseas Shareholders, being Shareholders with registered addresses outside Australia and New Zealand at 7:00 pm AEST on the Record Date, cannot participate in the Rights Issue. The Company is of the view that it is unreasonable to make the Offer to shareholders outside of Australia and New Zealand having regard to:

- the number of Shareholders outside of Australia and New Zealand;

- the number and value of the securities that could be offered to Shareholders outside of Australia and New Zealand; and
- the cost of complying with the legal requirements and requirements of regulatory authorities in the overseas jurisdictions.

Accordingly, pursuant to ASX Listing Rule 7.7.1 (a) the Company is not required to make the Offer to Shareholders outside of Australia and New Zealand (though this Letter of Offer may be sent to Shareholders outside these jurisdictions for information purposes only). ASX Listing Rule 7.7.1(c) requires that the Company arrange the sale of Rights that Overseas Shareholders would otherwise have been entitled to exercise ("Overseas Rights") and to account to Overseas Shareholders for the proceeds of this sale. To comply with this requirement, the Company will arrange to issue the Overseas Rights to a nominee who will endeavour to sell the Overseas Rights, hold the proceeds on trust, and account to Overseas Shareholders for the proceeds on a pro rata basis net of costs.

## No Overseas Offers

This Letter of Offer does not constitute an offer in any jurisdiction in which, or to any person to whom, it would be unlawful to make such an offer. Where this Letter of Offer has been despatched to investors domiciled outside Australia and where that country's securities code and legislation requires registration, this Letter of Offer is provided for information purposes only. Non-resident investors should consult their professional advisers as to whether any governmental or other consents are required or whether formalities need to be observed to enable them to participate in the Shortfall.

## Stock Exchange Listing

Application has been made to ASX for permission to list the Rights and the New Shares and all the requirements of ASX relating thereto that can be complied with on or before the date of this Letter of Offer have been duly complied with. However, ASX accepts no responsibility for any statement in this Letter of Offer. If the ASX does not grant permission for quotation of the Rights or the New Shares offered pursuant to this Letter of Offer within three (3) months after the date of this Letter of Offer, or such longer period as is permitted, none of the New Shares offered by this Letter of Offer will be allotted or issued. In these circumstances, the Company will repay all application monies, without interest.

## No guarantee or promise

Neither Neuren, its Directors, nor any person associated with this Offer, guarantees the New Shares or that a dividend will be paid on the New Shares or that the issue price of A\$0.013 per New Share will be recouped. No amount of returns (whether by way of dividend or return on sale or otherwise) on the New Shares is promised or guaranteed by any person. Accordingly, the dates on which, or the frequency with which, returns (if any) on the New Shares will be due and paid are unknown.

## DETAILS OF THE OFFER

### What sort of investment is this?

#### *Offer*

This is an offer by Neuren of a maximum of 617,887,310 ordinary shares to the Australian and New Zealand resident registered holders of ordinary shares in the Company as at 27 June 2011 in the ratio of one new ordinary share for every one ordinary share held at that date, at a price of A\$0.013 per New Share to Australian resident Shareholders and NZ\$0.017 per New Share to New Zealand resident Shareholders (based on an exchange rate fixed by Neuren of NZ\$1.00 equals \$0.7651 Australian dollars), payable on application. New Zealand resident Shareholders may alternatively pay A\$0.013 per New Share by subscribing in Australian dollars. Assuming this Offer is fully subscribed, the New Shares will represent 50.0% of Neuren's issued ordinary shares after allotment of the New Shares.

Your Entitlement to be issued New Shares under this Offer (the "Right") is Renounceable, meaning that you may accept your Rights either in full or in part but that any Rights you choose not to accept may be sold and some benefit may be received in respect of those Rights. However, the ability to trade Rights will be dependent on there being a demand from prospective purchasers of the Rights.

Eligible Shareholders may not apply for New Shares in excess of the Entitlement. Application Monies for New Shares in excess of Entitlements by \$1 or more will be refunded without interest. Refunds will be posted within seven calendar days of allotment of the New Shares following the close of the Offer. Due to the administrative cost of making refunds, Application Monies in excess of Entitlements by less than \$1 will not be refunded.

Pursuant to ASX Listing Rule 7.2 the Directors reserve the right to place within three months after the close of the Offer any New Shares which are not taken up either by Eligible Shareholders or holders of Rights under this Offer, to such persons and in such manner as the Directors consider equitable and in the interests of the Company, provided that the New Shares offered under the Shortfall are issued at not less than the price under the Offer and the terms and conditions of the issue of such New Shares are not materially more favourable to the persons to whom they are issued than the terms of this Offer.

### ***New Shares***

Each New Share issued shall rank equally in all respects with the Existing Shares in the Company at the time of issue and will provide you with the right to:

- an equal share with other ordinary shares in the Company in dividends, if any, authorised by the Board;
- attend and vote at meetings of the Company, including the right to cast one vote on a poll held at such meetings;
- receive certain Company information;
- an equal share with other ordinary shares in the Company in the distribution of any surplus assets on liquidation of the Company; and
- other rights conferred on shareholders by the Constitution and the Companies Act.

The Constitution may be viewed during normal business hours at the Registered Office of the Company (the address of which is set out below) or online at the website of the Company ([www.neurenpharma.com](http://www.neurenpharma.com)), the Registrar of Financial Service Providers ([www.business.govt.nz/fsp](http://www.business.govt.nz/fsp)), or the ASX ([www.asx.com.au](http://www.asx.com.au)).

See the section entitled "Description of Shares" on pages 21 to 23 for further information relating to the New Shares.

Application has been made to ASX for permission to list the securities and all the requirements of ASX relating thereto that can be complied with on or before the date of this Letter of Offer have been duly complied with. However, ASX accepts no responsibility for any statement in this Letter of Offer. If the ASX does not grant permission for quotation of the New Shares offered pursuant to this Letter of Offer within three (3) months after the date of this Prospectus, or such longer period as is permitted, none of the New Shares offered by this Prospectus will be allotted or issued. In these circumstances, the Company will repay all application monies, without interest.

### ***Underwriting***

The Offer is not underwritten and as this Offer is being made to give Eligible Shareholders the opportunity to acquire New Shares at the same price as Shares issued in placements to sophisticated and professional investors on 4 May 2011 and 2 and 3 June 2011, the Directors have not established a minimum amount which must be raised before the Directors will accept subscriptions and allot New Shares under this Offer.

### ***Other terms***

All other terms of this Offer and the New Shares are contained in this Letter of Offer, with the exception of those rights and obligations implied by law or set out in the Company's Constitution.

## **Who is involved in providing it for me?**

### ***Names and addresses***

#### ***Issuer***

The issuer of the New Shares that are subject to this Letter of Offer is Neuren Pharmaceuticals Limited (NZ registered company number 1181152; ARBN 111 496 130).

***New Zealand Registered Office***

Neuren Pharmaceuticals Limited  
Level 2, 57 Wellington Street  
Freemans Bay, Auckland

***Directors of the Issuer***

Dr Robin Congreve  
Dr John Holaday  
Dr Graeme Howie  
Dr Trevor Scott  
Dr Douglas Wilson

***Activities***

Neuren, which was incorporated on 17 December 2001, is developing new drugs for neurological disorders and cancer. The drugs target acute indications resulting from traumatic brain injury, psychiatric symptoms of stroke, as well as chronic conditions such as Parkinson's and Alzheimer's diseases.

Neuren has three lead candidates; NNZ-2566 and Motiva® presently in clinical development to treat a range of acute and chronic neurological conditions, and NNZ-2591 in preclinical development for Parkinson's disease dementia and other chronic neurodegenerative conditions. Through its subsidiary Perseis Therapeutics Limited, Neuren is also developing antibody based treatments targeting breast and other cancers.

Neuren has operations in New Zealand (Auckland based head office) and the United States, and is listed on the Australian Securities Exchange (ASX: NEU).

The principal activities of the Company are described in more detail in the section of this Letter of Offer entitled "Prospects" on pages 6 to 10.

No person or entity guarantees the securities offered in this Letter of Offer.

**How much do I pay?*****Share Price***

You must apply for a specific number of New Shares and you must pay the full subscription price on application. The subscription price is A\$0.013 per New Share.

***Acceptance of the Offer***

Details of how to accept or sell part, or all, of your Entitlement are set out under the heading "Action to be taken by Eligible Shareholders" on pages 4 to 5.

Please note that if you do not accept all or part of your Entitlement in accordance with the instructions set out above, any Entitlement not accepted will form part of the Shortfall.

Please also note that post-dated cheques will not be accepted. If the full amount of the Application Monies is not paid upon application or a cheque does not clear, your application may be rejected or any allocation of New Shares made to you may be cancelled.

An application will constitute an irrevocable offer by you to acquire the number of New Shares specified, on the terms and conditions set out in this Letter of Offer and the Entitlement and Acceptance Form. By submitting an application you agree to be bound by these terms and conditions and the Constitution. Applications cannot be revoked or withdrawn and Application Monies (except in the case of Entitlement over-subscription as set out on page 13) will not, therefore, be refunded. You should note that the Board reserves the right to extend the Offer and that such extension may result in the dates referred to in the table on page 2 of this Letter of Offer being altered. Any such changes will be advised through the ASX companies announcements platform.

The Directors have not established a minimum amount which must be raised before the Directors will accept subscriptions and allot New Shares under this Offer.

## What are the charges?

There are no charges payable by subscribers for the New Shares in addition to the subscription price. All expenses in respect of this Offer are being met by the Company.

The sale or purchase of the Rights and/or Shares on ASX is likely to attract brokerage fees and charges.

The Company estimates that its costs in respect of the Offer will be NZ\$65,000 plus GST.

## What returns will I get?

### *Sale of Rights*

The return (if any) from selling Rights will depend on the price for which they are sold (if they are sold), which will depend on the price of the Rights as quoted on the ASX when they are sold, and there being demand from prospective purchasers of the Rights. There is no guarantee that the Rights will have any value or that they will be able to be sold.

### *Dividends*

New Shares issued as a result of this Offer will rank equally in all respects, including as to dividends and voting entitlements, with the Existing Shares on issue at the time of allotment. Shareholders will be entitled to receive or benefit from any dividends paid by the Company in respect of New Shares and to any other returns attaching to the New Shares. However, the Company is not intending to pay dividends in the foreseeable future, given that it is intended that the Company will use all available funds for its clinical development and research programmes.

### *Sale of New Shares*

Shareholders may benefit from any increase in the market price of their New Shares if they sell them, however the market price of the New Shares may also decline. Factors which may have an influence on the share price of Neuren ordinary shares and, consequently, on returns from the sale of New Shares include:

- prevailing share market conditions;
- general economic conditions;
- interest rate rises or reductions;
- significant changes in the operations or results of Neuren;
- a sale of a significant parcel of Neuren ordinary shares;
- a take-over offer by a third party; and
- the risks described in this Letter of Offer under the heading "What are my risks?" below.

The highest and lowest market sale prices of the Company's Shares on ASX during the three months immediately preceding the date of lodgement of this Letter of Offer on ASX and the respective dates of those sales were:

- Highest: A\$0.024 on 24, 25 and 31 May 2011, and 2 June 2011
- Lowest: A\$0.014 on 17 and 18 March 2011 and 4 and 6 May 2011

The latest available closing sale price of the Company's Shares on ASX prior to the lodgement of this Letter of Offer with the ASX was \$0.017 on 14 June 2011.

### *Taxation*

Your return from the Rights or New Shares may be affected by taxes or changes to taxation laws. In certain circumstances, gains on the sale of Rights or New Shares may be taxable, however you should contact your own financial or legal adviser to seek advice concerning the tax consequences of owning or selling Rights or New Shares in view of your own particular circumstances.

### *No guarantee or promise*

Neither Neuren, its Directors, nor any person associated with this Offer, guarantees the New Shares or that a dividend will be paid on the New Shares or that the issue price of A\$0.013 per New Share will be recouped. No amount of returns on the Rights or on the New Shares (whether by way of dividend or return on sale or otherwise) is promised or guaranteed by any person. Accordingly, the dates on which, or the frequency with which, returns (if any) on the Rights or the New Shares will be due and paid are unknown.

## What are my risks?

### *General risk factors*

Investments in biopharmaceutical companies can be considered speculative. Risks associated with investment in the Company include risks of a general nature relating to investment in shares and securities generally where the company invested in has a small market capitalisation together with risks particular to investment in the Company, which risks relate to the nature of its activities, being biotechnology research and development.

Investors in the Company will also be subject to normal risks relating to the general levels of economic activity and macro-economic factors beyond the control of the Company including share market conditions which may affect the share market and share prices generally. General risk factors which may have an influence on the share price are described above under the heading "What returns will I get?" and the occurrence of such events, or the specific risk factors detailed below, could result in investors in the Company being unable to recover, or receive any returns on their investment.

### *Specific risk factors*

There are a number of specific risks that may affect Neuren's operating performance and, consequently, the value of its Shares and returns on the New Shares. Key risks which may affect the value of the New Shares and returns on the New Shares are as follows:

- **Reliance on Key Personnel** – Neuren currently employs a number of key management and scientific personnel, and in part its future depends on retaining and attracting suitably qualified personnel. Failure to do so could materially adversely affect its business, operating results and financial prospects.
- **Contract Risks Generally** – Neuren operates through a series of contractual relationships with licensors, sublicensees, independent contractors, distributors and suppliers. All contracts carry risks associated with the performance by the parties thereto of their obligations as to time and quality of work performed.
- **Risk as to Technical Capacity** – Neuren intends to carry out development work using appropriately chosen scientific research organisations. As such, it will be subject to the risk that staff in those organisations may have lesser technical capacity than needed to achieve the results sought to be obtained from any development programme and the results sought to be obtained may not be obtained or results apparently obtained may be inaccurate as a result of flawed research or development.
- **Intellectual Property and Proprietary Rights** – Neuren regards the content of certain of its technology as proprietary and relies primarily on a combination of copyright, patent and trade secrecy laws and employee and third party non-disclosure agreements to protect its rights. However, no assurances can be given that employees and/or third parties will not breach non-disclosure agreements or infringe or misappropriate Neuren's intellectual property and proprietary rights. Further, no assurance can be given that others will not challenge the ownership or validity of those rights by attacking either Neuren or patent holders from whom it has acquired licenses. Litigation may be necessary from time to time to enforce and protect Neuren's rights. Such litigation can be costly and could have adverse effects on its activities, business, operating results and financial position. It is possible that other parties may assert intellectual property infringement, unfair competition or like claims against Neuren under copyright, trade secret, patent or other laws. While Neuren is not aware of any claims of this nature in relation to any of the intellectual property rights in which it has interests, such claims, if made, may harm, directly and indirectly, its business. If Neuren is forced to defend against claims of intellectual property infringement, whether they are with or without merit or are determined in its favour, it might face costly litigation and diversion of management's attention. As a result of such disputes, Neuren may have to develop non-infringing technology or enter into royalty or licensing agreements. Such agreements, if necessary, may be unavailable on terms acceptable to Neuren, or at all. If there is a successful claim of intellectual property infringement or unfair competition against Neuren and it is unable to develop non-infringing technology or license the infringed or similar technology or content on a timely basis, it could harm Neuren's business, operations and financial condition.
- **Technological Development** – Neuren's future success will depend in no small part on its ability to develop products that are able to compete in a global marketplace. No assurance can be given that the research and development activities will lead to the development of such products.
- **Competition** – Neuren's current and potential future competitors might include companies with significantly greater resources than those possessed by the Company. These competitors may develop products or services that are

more effective and/or cheaper than those being developed by Neuren, and as a consequence its products or services may become uncompetitive, resulting in adverse effects on revenue, margins and profitability.

- Product Development – There are many risks inherent in the development of biotechnology products. They can be subject to many failures during manufacturing and clinical trials or may fail to achieve sufficient robustness and reliability. Neuren cannot guarantee that the development work being undertaken or the milestones sought will result in the development of any products, or even if they do, that those products will be commercially successful.
- Sufficiency of Funding – Neuren has a business plan which will require a high level of expenditure until product revenue streams are established and therefore it expects to continue to incur additional net losses until then. In the future, Neuren will need to raise further financing through other public or private equity financings, collaborations or other arrangements with corporate or governmental sources, or other sources of financing to fund operations and achieve milestones. There can be no assurance that such additional financing, if available, can be obtained on terms reasonable to Neuren. In the event Neuren is unable to raise additional capital, future operations will need to be curtailed or discontinued. The auditor's report on the financial statements for the year ended 31 December 2010 contains a "fundamental uncertainty" statement noting that those financial statements do not include any adjustments that would be required to reflect the Company being unable to continue as a going concern as a result of being unable to obtain future financing for development of products and other working capital requirements. If the Company is unable to obtain additional funding it may be unable to continue in operational existence for the foreseeable future and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amount at which they are currently recorded in the consolidated financial statements. In addition, the Company may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities.
- Regulatory Risks – Neuren's operations will require approvals from regulatory authorities which may not be forthcoming or which may not be able to be obtained on acceptable terms. While Neuren has no reason to believe that all requisite approvals will not be forthcoming, investors should be aware that Neuren cannot guarantee that any requisite approvals will be obtained. A failure to obtain any approvals would mean that Neuren's ability to develop or operate any project may be limited or restricted either in part or absolutely.
- Risk as to Profitability – Neuren's ability to pay dividends will depend on it generating revenue and then deriving sufficient after-tax profits to be able to do so. Neuren is not presently profitable and it may not at any time be so.
- No Valuation – No formal or informal valuation has been completed of our intellectual property or assets. The Directors make no representation as to the value of the Company's intellectual property or assets.
- Risks Related to Liquidity – Neuren's Existing Shares quoted on the ASX have limited liquidity. Accordingly, if Neuren successfully applies for quotation on the ASX of the New Shares, there can be no assurance that investors will have sufficient liquidity to sell their Shares through the ASX on a timely basis, at an acceptable price, or at all. As a result of the foregoing, investors may be forced to sell any New Shares acquired in connection with this offering for less than anticipated or even at a loss, or hold their New Shares for longer than anticipated.
- Generally – The possibility exists that, for a wide range of reasons, Neuren's present strategies, plans, policies, intentions and expectations may not be able to be implemented.

#### ***Your liability and consequences of insolvency***

The New Shares allotted under this Offer will be issued fully paid and you will have no liability to Neuren for any further payment in respect of the New Shares.

If the Company becomes insolvent, you would have no obligation to pay any more money to the Company or any other person. Claims on assets of the Company, in the event of the Company being put into liquidation or wound up, that rank ahead of the claims of shareholders in the Company are:

- all creditors of the Company, both secured and unsecured; and
- those claims given priority by legislation such as claims for liquidation costs, employees' wages and taxes.

After all such claims have been made and paid, any remaining assets will be available for distributions to the Company's Shareholders who will rank equally among themselves. It is reasonably foreseeable that, on termination of your Shares as a consequence of the Company being put into liquidation, you will have received, in total, less than the amount you have paid for the Shares.

### **Can the investment be altered?**

The full terms of this Offer are set out in this Letter of Offer. Those terms may be altered by the Company by an amendment to this Letter of Offer. However, those terms cannot be altered without your consent once your application for New Shares has been accepted.

The rights attaching to the New Shares are set out under the heading "What sort of investment is this?" above and in the section headed "Description of Shares" on pages 21 to 23 of this Letter of Offer.

The rights conferred on the Company's Shareholders are set out in the Companies Act and the Constitution, and also the applicable Listing Rules of the ASX. Shareholders' rights may be negated, altered or added to by an amendment of the Constitution, which may be made by a special resolution of Shareholders. A special resolution requires the approval of 75% of the votes cast of shareholders affected by the relevant matter, to be valid.

Neuren may not take any action which would affect the rights of Shareholders without approval by special resolution of those Shareholders whose rights would be affected by the action in question.

Certain major transactions and those that would change the nature of the Company's business also require the approval of a special resolution.

### **How do I cash in my investment?**

Except as otherwise prescribed by law, you have no right to receive back from the Company the amount subscribed for the New Shares offered under this Letter of Offer, except in circumstances where the Company is being wound up, or in circumstances where the Company seeks to buy back its own Shares.

The Rights are Renounceable and it is intended that the Rights will be quoted on the ASX during the period of 21 June to 7 July 2011. Accordingly, you may seek to sell your Rights through ASX. It is not certain however that you will be able to sell your Rights. This will depend on the volume of Rights offered for sale and purchase and the price at which you are seeking to sell your Rights.

If you wish to sell some or all of your Rights, you should contact your broker to sell the number of Rights you wish to renounce. Sales of Rights through a broker will attract brokerage at the rates charged by that broker.

A shareholder of New Shares is entitled to sell or transfer their shares to another person by private agreement or on the ASX, subject to compliance with the Constitution and any applicable laws. In the opinion of the Company there is an established market for Neuren's ordinary shares on the ASX. Following acceptance for quotation by ASX Limited, the New Shares, like the Existing Shares, may be sold or transferred by the holder at any time on the ASX.

Sales of Shares through a broker will attract brokerage at the rates charged by that broker. The Company does not charge fees for registering on-market share transfers.

## Who do I contact with enquiries about my investment?

Enquiries about this Offer may be made to:

The Chief Financial Officer

Neuren Pharmaceuticals Limited

Level 2, 57 Wellington Street

Freemans Bay, Auckland

New Zealand

OR BY MAIL TO:

PO Box 9923

Newmarket, Auckland 1149

New Zealand

Telephone: 1 800 259 181 (within Australia) or +64 9 3700 200

Fax: +64 9 361 7981

Email: [enquiries@neurenpharma.com](mailto:enquiries@neurenpharma.com)

Enquiries about your present shareholding can be made to:

Neuren Share Registrar

Link Market Services Limited

Level 1, 333 Collins Street

Melbourne, Victoria 3000

Australia

Telephone: +61 3 9615 9800

Fax: +61 3 9615 9900

## Is there anyone to whom I can complain if I have problems with the investment?

Any complaints or problems about this Offer can be made to:

The Chairman

Neuren Pharmaceuticals Limited

Level 2, 57 Wellington Street

Freemans Bay, Auckland

New Zealand

OR BY MAIL TO:

PO Box 9923

Newmarket, Auckland 1149

New Zealand

Telephone: 1 800 259 181 (within Australia) or +64 9 3700 200

Fax: +64 9 361 7981

Email: [enquiries@neurenpharma.com](mailto:enquiries@neurenpharma.com)

Complaints about the New Shares cannot be made to any Ombudsman in New Zealand.

## What other information can I obtain about this investment?

Other information about Neuren and the New Shares is contained or referred to in the remainder of this Letter of Offer, the Constitution, and Neuren's 2010 Annual Report, which contains the most recent audited financial statements of Neuren for the year ended 31 December 2010. Copies of the Company's most recent annual report and financial statements and this Letter of Offer may be obtained, free of charge, from the Company's offices in Auckland (New Zealand) as listed in the Company Directory on page 24, or from the Company's website [www.neurenpharma.com](http://www.neurenpharma.com).

The Company is listed on ASX and its Existing Shares are quoted on ASX under the code "NEU". As such, the Company is a "disclosing entity" for the purposes of the Australian Corporations Act and is subject to regular reporting and disclosure obligations, which require it to disclose to ASX any information of which it is or becomes aware concerning the Company and which a reasonable person would expect to have a material effect on the price or value of securities of the Company. Neuren's financial reports, corporate presentations and announcements may be viewed on the ASX website [www.asx.com.au](http://www.asx.com.au) under the security code "NEU".

All Shareholders on the relevant record dates will be entitled to receive certain information relating to the ongoing performance of the Company in accordance with the Companies Act, the Financial Reporting Act 1993 and the Listing Rules. Shareholders

will either receive this information automatically or will receive notification of their right to request this information. The information includes the Annual Report, containing the Company's audited financial statements, and the half yearly Interim Report, containing the unaudited half-year financial statements.

The Company will supply Shareholders or prospective investors with the following documents and information free of charge on request:

- a copy of this Letter of Offer; and
- a copy of any financial statements of the Company that have been registered under the Financial Reporting Act 1993 (NZ) and that are referred to in this Letter of Offer.

Such requests should be made to the Company in writing at the address specified in the Company Directory on page 24, or can be obtained from its Auckland (New Zealand) offices as listed in the Company Directory on page 24, or from the Company's website [www.neurenpharma.com](http://www.neurenpharma.com). The Constitution is also available free of charge on request or from the Company's website.

## PURPOSE AND EFFECT OF THE OFFER

### Purpose of the Offer and Use of Proceeds

In early May and June 2011 Neuren completed share placements amounting to A\$2 million to sophisticated and professional investors ("the Placements"). This Offer is being made to give Eligible Shareholders the opportunity to acquire New Shares at the same price as Shares issued in the Placements. The direct costs of the current clinical trial and cancer programmes are largely funded by grants and joint venture partners. The proceeds of the Placements and this Offer will be used to fund corporate overhead and operating costs through 2012 when Neuren expects to have completed the two ongoing Phase 2 trials of NNZ-2566 and Motiva®. Proceeds also will be used to expand opportunities for NNZ-2566, Motiva® and other development programmes wherever possible.

As this Offer is being made to give Eligible Shareholders the opportunity to acquire New Shares at the same price as Shares issued in the Placements, the Directors have not established a minimum amount which must be raised before the Directors will accept subscriptions and allot New Shares under this Offer.

### Effect on Capital Structure and Control

The following table shows the number of Existing Shares at the date of the Offer and the total number of issued Shares at the close of the Offer assuming the Offer is fully subscribed.

	<b>Ordinary Shares</b>
Existing Shares at the date of this Letter of Offer	617,887,310
Total New Shares offered	617,887,310
Total issued Shares on Close of the Offer (if fully subscribed)	<u>1,235,774,620</u>

The above table assumes that no Options are exercised prior to the Record Date. There are 202,726,662 issued options over Neuren Shares at the date of the Offer exercisable at prices ranging from A\$0.0146 to A\$0.0457 per share with expiry dates ranging from 18 November 2013 to 6 June 2015. The options do not entitle the holder to participate in the Offer.

If the Offer is fully subscribed (whether through take up of Entitlements or placement of the Shortfall), it will result in the issue of approximately 618 million New Shares, raising up to approximately A\$8.0 million.

The issue of New Shares under the Offer is not expected to have any effect on the control of the Company.

## ISSUE EXPENSES

The total expenses of the issue payable by the Company, including all legal costs, accounting fees, printing costs, share registry and other costs, are estimated to be NZ\$65,000 plus GST.

No brokerage is payable by any Shareholder subscribing for New Shares comprising their Entitlement. Sales of Rights through a broker will attract brokerage at the rates charged by that broker.

## DESCRIPTION OF SHARES

The Shares are fully paid ordinary shares and are all of the same class and rank equally in every respect. Set out below is a summary of some of the principal rights of Shareholders pursuant to the Constitution. It does not purport to constitute an exhaustive or definitive statement of the rights and liabilities of the Shareholders. Investors are accordingly encouraged to inspect the Constitution.

The rights and liabilities attaching to the Shares are also regulated by the New Zealand Companies Act, the general law and the Listing Rules of the ASX.

### Meetings of Shareholders

Each Shareholder is entitled to receive a notice of and attend and vote at general meetings of the Company and to receive all notices, reports and financial statements required to be sent to Shareholders under the Constitution, the Companies Act, the Listing Rules or other requirements.

The Company may serve a notice on the Shareholder either personally, by sending it by post addressed to the Shareholder's registered address or to the Shareholder's email address.

### Voting Rights

At a general meeting, subject to any special privileges or restrictions as to voting for the time being attached to any special class of shares, on a show of hands every Shareholder present in person or by proxy has one vote. On a poll, each Shareholder present in person or by proxy will have one vote for every Share which that Shareholder holds or represents. No Shareholder will be entitled, in respect of Shares held by that Shareholder, to exercise voting rights or to form part of any quorum by virtue of his or her holding such Shares if any call or other sum presently payable by that member to the Company in respect of such Shares remains unpaid.

Subject to the Companies Act, the general law and the Listing Rules, in the case of equality of votes, whether on a show of hands by voice or on a poll, the Chairman of that Shareholders' meeting is not entitled to a second or casting vote.

### Dividend Rights

The Directors, in accordance with the Companies Act, may declare dividends.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will (as regards any Shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amount paid on the Shares during any portion or portions of the period in respect of which the dividend is paid. For this purpose, no amount paid on a Share in advance of calls will be treated as paid on the share.

### Transfer of Shares

Shares may be transferred electronically (by an electronic transfer system approved by any statute of New Zealand) or by instrument in a form as approved by the Directors and any stock exchange upon which the Company may be listed.

There will be no restriction on the transfer of Shares except where:

- required by law or the listing rules of any stock exchange upon which the Shares may be listed; or
- where the Board in its discretion granted by the Constitution refuses to transfer the Shares.

## Issue of Further Shares

Subject to the Companies Act, the Listing Rules and any special rights previously conferred on the holders of any existing shares or class of shares, the Directors may issue shares at any time without the prior approval of the Company in a general meeting, to any persons on such terms and conditions and for such consideration and at such time and on such payment terms as the Directors may think fit.

Any shares may be issued in such denomination or with such preferential, deferred, qualified or special rights, privileges, conditions or restrictions or limitations including as to distributions, voting rights and ranking as the Directors may think fit.

## Variation of Rights

The issue of shares ranking equally with or in priority to any existing shares will not affect the rights of the existing shares unless specifically provided for in the terms of issue of those existing shares.

## Winding Up

If the Company is wound up (whether the liquidation is voluntary, under supervision, or by the court) the liquidator may, with the authority of a special resolution or any other sanction required by the Companies Act, divide among the members in kind the whole or any part of the assets of the Company and whether or not the assets will consist of property of the same or different kinds, and may for such purpose set such value as the liquidator deems fair upon any of the property to be divided as aforesaid and may determine how such division will be carried out as between the members or different classes of members.

The liquidator may, with the approval of the Company by special resolution, vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator with the approval of the Company by special resolution will think fit, and the Company dissolved, but so that no contributory will be compelled to accept any shares or other property in respect of which there is a liability.

## Share Buy Backs

The Company may buy Shares in itself on the terms and at the times determined by the Board, to extent and in the manner permitted by the listing rules of any stock exchange upon which the shares of the Company may be listed and the Companies Act.

## Compliance with ASX Listing Rules

The Constitution was amended on 4 October 2004 to incorporate Appendix 15A of the Listing Rules of the ASX. Accordingly, the following applies:

- Notwithstanding anything contained in the Constitution, if the Listing Rules prohibit an act being done, the act shall not be done.
- Nothing contained in the Constitution prevents an act being done that the Listing Rules require to be done.
- If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be).
- If the Listing Rules require the Constitution to contain a provision and it does not contain such a provision, the Constitution is deemed to contain that provision.
- If the Listing Rules require the Constitution not to contain a provision and it contains such a provision the Constitution is deemed not to contain that provision.
- If any provision of the Constitution is or becomes inconsistent with the Listing Rules, the Constitution is deemed not to contain that provision to the extent of the inconsistency.

## Alteration of Constitution

The Constitution can only be amended by a special resolution passed by at least 75% of the votes cast by Shareholders present and voting at the general meeting. At least 10 business days' written notice specifying the intention to propose the resolution as a special resolution must be given.

## Number of Directors

The number of Directors, other than alternate directors, will not be less than 3 or more than 9 or such other number as is fixed by an ordinary resolution of the Company. At least 2 Directors of the Company must be ordinarily resident in New Zealand.

## **Appointment and Removal of Directors**

Subject to the Constitution, the Board or the Company by ordinary resolution may appoint any person as a Director either to fill a casual vacancy or as an additional Director.

The Listing Rules require that the Company hold an election of Directors by ordinary resolution each year. The Directors, other than a managing director, must not hold office (without re-election) past the third annual meeting of Shareholders following the Director's appointment or 3 years, whichever is longer. However, a Director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual meeting of Shareholders.

The Company may by ordinary resolution, subject to the Constitution, from time to time remove any Director before the expiration of his or her period of office and appoint another person in their place.



<b>DEFINITIONS AND INTERPRETATIONS</b>
--

\$ or NZ\$	refers to New Zealand dollars
A\$	refers to Australian dollars
AEST	refers to Australian Eastern Standard Time
Application Monies	the total monies payable by an applicant at the time of subscribing for a specified number of the New Shares, rounded up to the nearest cent
ASX	ASX Limited or the Australian Securities Exchange that it operates (as the context requires)
Board	the board of Directors of the Company
Close or Closing Date	the date so described in the table on page 2 of this Letter of Offer, unless extended
Companies Act	the New Zealand Companies Act 1993
Company or Neuren	Neuren Pharmaceuticals Limited (New Zealand Registered Company Number 1181152; Australian Registered Body Number 111 496 130), including its subsidiaries
Constitution	the constitution of the Company as amended from time to time
Corporations Act	the Australian Corporations Act 2001 (Cth)
Director	a director of the Company
Eligible Shareholder	a Shareholder as at the Record Date, not being an Overseas Shareholder
Entitlement	the number of New Shares to which an Eligible Shareholder is entitled to apply for under this Offer and as set out in the Entitlement and Acceptance Form
Entitlement and Acceptance Form	the Entitlement and Acceptance Form that accompanies the Letter of Offer for Eligible Shareholders whose registered address is in Australia
Existing Share	a fully paid ordinary share in the Company on issue at 7 p.m. (AEST) on the Record Date
Letter of Offer	this Letter of Offer dated 14 June 2011
Listing Rules	the listing rules of the ASX as amended from time to time and for so long as the Company is admitted to the official list of the ASX
New Shares	up to 617,887,310 new ordinary shares in the Company offered to Australian and New Zealand resident shareholders pursuant to the Offer
Offer	this offer of New Shares made by the Company as set out in this Letter of Offer
Overseas Rights	the Rights that Overseas Shareholders would otherwise have been entitled to exercise
Overseas Shareholder	a Shareholder whose registered address is outside New Zealand or Australia as at the Record Date
Record Date	7 p.m. (AEST) on 27 June 2011
Renounceable	able to be transferred or sold by an Eligible Shareholder
Rights	the entitlement to subscribe for New Shares under the Offer
Rights Issue	this Offer
Rights Trading Period	the period from 21 June 2011 to 7 July 2011
Share	one ordinary fully paid share in the Company, be it an Existing Share or a New Share
Shareholder	a holder of Existing Shares in the Company
Shortfall	the total New Shares from Entitlements not accepted by Eligible Shareholders under this Offer



pharmaceuticals

Neuren Pharmaceuticals Limited  
ARBN 111 496 130  
Level 2, 57 Wellington Street  
Freemans Bay, Auckland  
New Zealand

Tel: +64 9 3700 200  
Email: [enquiries@neurenpharma.com](mailto:enquiries@neurenpharma.com)

[www.neurenpharma.com](http://www.neurenpharma.com)