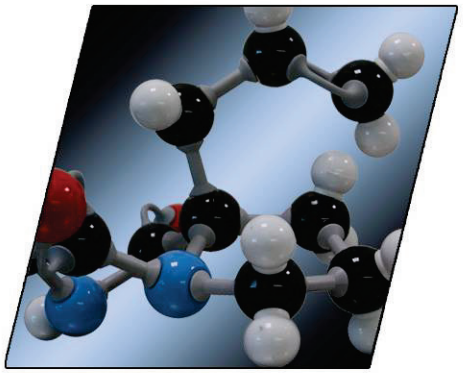
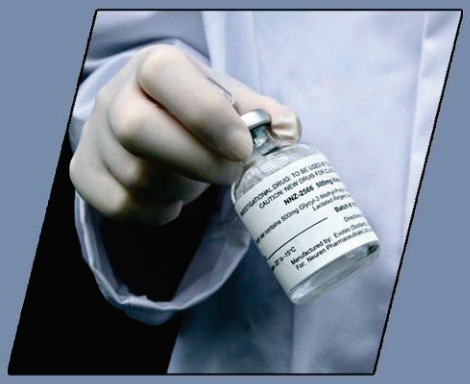


2011

ANNUAL REPORT

Neuren Pharmaceuticals Limited

ARBN 111 496 130



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Neuren Pharmaceuticals Limited

Contents

The Board of Directors is pleased to present the Annual Report of Neuren Pharmaceuticals Limited for the year ended 31 December 2011, authorised by it on 27 March 2012.

For, and on behalf of, the Board

Dr Robin Congreve
Chairman

Dr Trevor Scott
Director

27 March 2012

Corporate Directory

Company
Neuren Pharmaceuticals Limited
ARBN 111 496 130

Corporate Head Office
Level 2, 57 Wellington Street,
Freemans Bay, Auckland, New Zealand
Tel: +64 9 3700 200

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Directors
Dr Robin Congreve
Mr Bruce Hancox
Dr John Holaday
Dr Graeme Howie
Dr Trevor Scott
Dr Douglas Wilson

Company Secretary
Mr Robert Waring

Auditors
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188 Quay Street
Private Bag 92162
Auckland, New Zealand

Share Registry
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Level 9, 333 Collins Street
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Australia
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Fax: +61 3 9615 9900

Stock Exchange Listing
ASX Limited
ASX Code: NEU

Website
www.neurenpharma.com

Neuren Pharmaceuticals Limited

Chief Executive's Report

Neuren again made excellent progress in the development of our key assets in 2011. Foremost among the Company's accomplishments were securing our financial position through 2013 and significant progress in diversification of the NNZ-2566 franchise. Major milestones included:

- Raising NZ$11 million in new capital through a rights issue and placement of shares, adding two new cornerstone investors and closing the year with cash of NZ$9.8m
- Retiring all outstanding convertible notes and terminating the funding agreement with SpringTree Special Opportunities Fund
- Completing Cohorts 1 and 2 of the Phase II trial of NNZ-2566 in moderate to severe traumatic brain injury
- Obtaining FDA approval for implementation of Exception from Informed Consent in the NNZ-2566 Phase II trial
- Completing preclinical and manufacturing development for the NNZ-2566 oral formulation
- Receiving FDA approval for a new IND to test an oral formulation of NNZ-2566 in patients with mild TBI or concussion
- Advancing the NNZ-2566 Rett Syndrome program through collaborations with leading experts and academic partners
- Filing an application with the FDA for Orphan Disease designation for NNZ-2566 in Rett Syndrome
- Developing and submitting protocols and supporting documentation for a pre-IND meeting with the FDA to seek agreement for a Phase II trial in Rett Syndrome

NNZ-2566 Development Program
As additional scientific evidence of the therapeutic potential of NNZ-2566 in multiple indications has emerged and its excellent safety profile continues to be supported, Neuren has committed to expanding the scope of the program. These efforts benefit from substantial leverage on investments by the Company and ongoing support from the US Army. At the end of 2010, the NNZ-2566 program was based on a single IND for the clinical trial of the intravenous formulation in moderate to severe traumatic brain injury (TBI) and a preclinical development program to advance an oral formulation. Today, the NNZ-2566 franchise includes four INDs enabling three well-advanced clinical development programs:

- NNZ-2566 intravenous for moderate to severe TBI
- NNZ-2566 oral for mild TBI/concussion
- NNZ-2566 oral for Rett Syndrome and other autism spectrum disorders.

NNZ-2566 intravenous for moderate to severe TBI

INTREPID^{-2566} is a Phase II clinical trial in patients admitted to trauma centres with moderate to severe TBI. The trial involves three cohorts with the dose increased following completion of the preceding cohort and review by the Data and Safety Monitoring Committee (DSMC). The first two cohorts of 30 patients each were completed during 2011. The third cohort of 200 patients is underway. To date, NNZ-2566 appears to be well-tolerated. The serious adverse events (SAEs) reported among study subjects have been typical for critically injured patients and the mortality rate is substantially below that reported in comparable trials.

The study is presently being conducted with a requirement for informed consent by a Legally Authorized Representative (LAR) while implementation of the new protocol under Exception from Informed Consent (EFIC) proceeds. EFIC requires a complex and time-consuming process of community consultation and public disclosure at each participating site. The plans for this process are approved by the site's Institutional Review Board (IRB) prior to initiation and final protocol review occurs when the process has been completed. Implementation of the EFIC process is proceeding well with two sites having completed the community consultation and public disclosure campaigns with IRB approval. As each site IRB approves the EFIC study, documentation is submitted to the FDA as well as to the US Army's Human Research Protection Office. Because the trial is largely funded by the US Army, it also must approve implementation at each site.

During the course of the trial, enrolment has been a continuing challenge. This tends to be the case with most TBI trials in which, because of the acute nature of the injury, eligible patients cannot be recruited in advance. Inclusion of females, expansion of the age range, EFIC and bringing on additional sites represent our core strategies to improve the pace of enrolment. Implementation of these measures requires time, however, and progress has been slower than anticipated. We remain confident that the approaches outlined will improve enrolment and will update our estimate of time to complete the study following evaluation of the performance of new and original sites under the revised protocol. Cost implications are minimal as the direct costs of the trial are covered by funding from the US Army.

NNZ-2566 oral for mild TBI/concussion

As previously disclosed, an aqueous (water-based) formulation has been selected for the oral formulation of NNZ-2566. During 2011, the Company was able to capitalize on the advantages that an aqueous formulation provides with respect to development time and cost to advance the project through the entire preclinical development process. Drug product manufacturing was simplified by using the same lyophilized powder produced for the intravenous formulation. Stability studies confirmed that, when reconstituted with water, the product is stable for at least five days which will make providing it for patients in the Phase II trial in concussion less cumbersome. The bridging toxicology study confirmed that NNZ-2566 oral is safe and well-tolerated at doses well above those expected to be used in the Phase I and II trials. The IND for NNZ-2566 oral in concussion was approved by the FDA in December 2011 and the first of four cohorts of healthy volunteers in the Phase I safety and pharmacokinetics study has been completed. There have been no adverse events reported during the follow-up period specified in the protocol.

Concussion represents a serious public health problem and a very large market with more than 800,000 patients admitted to emergency departments each 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 program.

A Phase II clinical trial in patients with concussion is planned to start in the second half of 2012. The trial will be led by physicians and scientists from the University of Pittsburgh Sports Medicine Concussion (UPMC) Program. The UPMC program, established in 2000, is the largest clinical service and research program focused on the diagnosis, evaluation and management of concussion in athletes. The program's internationally known team of clinicians and researchers are world leaders in the study of neurocognitive effects of concussion and development of better methods to evaluate recovery.

As part of the program, baseline neurocognitive assessments have been completed on thousands of people, predominantly athletes, who will be the pool of potential patients for the study. Because we will know the degree of impairment induced by the injury compared to pre-injury status, each patient will essentially serve as his or her own control, allowing us to use return to baseline as the primary efficacy endpoint, rather than attempting to measure performance against population-based normative data. This methodology will allow us to use a smaller sample size to achieve the desired power and precision. In addition to neurocognitive performance, efficacy endpoints will include vestibular function (a measure of balance) and other post-concussion symptoms. The UPMC investigators estimate that enrolment and follow-up of approximately 200 patients will be completed within one year.

NNZ-2566 oral for Rett Syndrome and other autism spectrum disorders

Rett Syndrome (RTT) is a severe neurodevelopmental disorder caused by mutations in an X-linked gene designated MECP2. It occurs in approximately 1 in every 10,000 females and is considered one of the autism spectrum disorders. Children born with the mutation develop normally in the first 6-18 months then experience a precipitous decline in cognitive, behavioural and physical function with most patients becoming profoundly disabled by early childhood. Patients' status tends to stabilize by puberty but most are left with severe disability and many have seizures, heart rhythm and digestive problems as well as skeletal abnormalities. There is no approved treatment.

At a cellular level, the MECP2 mutations that cause RTT result in significant deficits in connectivity between neurons. Dendrites, the branching projections of neurons that provide the electrochemical signals necessary for communication between neurons, are typically shorter and less dense than in normal cells and the strength of the signals is diminished. In a mouse model of Rett Syndrome, NNZ-2566 increased the length and branching of dendrites and also enhanced signal transmission as measured by long-term potentiation, one of the important cellular mechanisms underlying learning and memory. RTT also is associated with activation of microglia, a type of immune cell present in the brain, which can lead to increased inflammation and damage to nerve cells. NNZ-2566 has been shown in multiple animal models to

reduce inflammation (by blocking up-regulation of inflammatory cytokines) and resulting cell death (apoptosis).

Part of the rationale for targeting RTT also derives from studies conducted by researchers at MIT[1] who found that (1-3)IGF-1 or glypromate, the parent molecule of NNZ-2566, is effective in the same mouse model in which NNZ-2566 showed benefit. On the basis of that work, a Phase I/II trial of IGF-1, the molecule from which glypromate is derived, in patients with Rett Syndrome is ongoing at Children's Hospital in Boston, Massachusetts. The trial is sponsored by the International Rett Syndrome Foundation and Autism Speaks, two of the leading non-profit research and advocacy organizations supporting research in Rett Syndrome. Unlike IGF-1, NNZ-2566 readily crosses the blood brain barrier to reach the brain and will also be administered orally rather than by injection. The Company believes that, for a drug to effectively control the symptoms of Rett Syndrome, it will have to be administered continuously, probably for life, and that an oral product offers significant advantages for caregivers over an injectable.

Working with Autism Therapeutics Ltd (UK), a group with substantial expertise in drug development and clinical trials for autism spectrum disorders, and academic collaborators, clinical trial protocols have been developed for two Phase II clinical trials in Rett Syndrome – one in adolescent and adult patients and one in pediatric patients. These were submitted along with supporting documentation to the FDA in a request for a pre-IND meeting to seek agreement with the FDA concerning trial design. The meeting has been granted and scheduled for May 2012. We also filed a request for Orphan Drug designation for NNZ-2566 in Rett Syndrome in December 2011 and plan to request Fast Track designation following approval of the IND.

Pending completion of the Phase I trial and approval by the FDA, the Phase II trials will be conducted at the Texas Children's Hospital and Baylor College of Medicine in Houston, Texas under the leadership of Drs. Daniel Glaze and Jeffrey Neul, Director and Assistant Director, respectively, of the Blue Bird Circle Rett Center, one of the world's leading centres for research and treatment of Rett Syndrome and other neurodevelopmental disorders. Neuren plans to conduct the trial in adolescent and adult patients first and intends to initiate enrolment in late 2012. We believe that, if the Phase II trials are positive, it will be possible to progress directly into Phase III trials.

Motiva®

Motiva®, or nefiracetam, is a small molecule originally developed by Daiichi Pharmaceuticals to which Neuren obtained rights via acquisition of Hamilton Pharmaceuticals. Motiva® has shown efficacy in a range of neuropsychiatric outcomes in six Phase II and III trials in post-stroke patients. In a Phase IIb 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)[2] . The trial was the first randomised, placebo-controlled study to show a significant effect of a pharmacologic intervention on apathy. The most severely depressed patients also showed a significant improvement in depressive symptoms although the effect across all patients was not statistically significant[3]. Motiva® has been tested in over 1,700 patients in Phase I, II and III trials in Japan, the US and Canada and has an excellent safety profile.

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 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 tumors and infection. Taken together, it has been estimated that Apathy Syndrome affects some 10 million people in the US alone.

A Phase II trial of Motiva® in 122 patients with post-stroke apathy is underway. The study is funded by a grant from the National Health and Medical Research Council to Prof. Sergio Starkstein, MD, PhD, Winthrop Professor and Head of the Neuropsychiatry Unit at Fremantle Hospital, Perth. Patients are being actively screened and recruited. In mid-2011, a second clinical centre in Western Australia initiated patient screening

[1] Tropea et al. Partial reversal of Rett Syndrome-like symptoms in MeCP2 mutant mice. *Proceedings of the National Academy of Sciences* 2009.
[2] Robinson et al. Double-blind treatment of apathy in patients with post-stroke depression using nefiracetam. *Journal of Neuropsychiatry and Clinical Neurosciences* 2009.
[3] Robinson et al. Double-blind randomized treatment of post-stroke depression using nefiracetam. *Journal of Neuropsychiatry and Clinical Neurosciences* 2008.

as well. Approximately 100 patients have been recruited and are being followed to determine whether they develop apathy that meets the criterion for randomisation. To date, 10 patients have completed dosing. An interim analysis is planned for later this year. Neuren is not incurring any costs associated with the conduct of the trial. 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.

Perseis Cancer Research Program

The Trefoil Factor (TFF) program targeting breast and other cancers was 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 program to develop and test monoclonal antibodies against 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.

As previously announced, in 2011 Perseis selected three lead anti-TFF-1 antibodies for evaluation in an animal (xenograft) model of human breast cancer. The antibodies were selected from a library of fully human antibody fragments owned by the University of California at San Francisco. The process of producing the monoclonal antibodies took longer than expected which delayed initiation of the study, however the xenograft studies are underway with final results expected by May 2012.

Intellectual Property

From the beginning of 2011 until the end of the reporting period, the following issued patents were added to our patent portfolio:

- U.S. Patent No. 7,863,304, issued on 4 January 2011, entitled *Analogs of GPE*. The patent covers the compositions of matter and methods of use of NNZ-2624 and NNZ-2552 as well as pharmaceutical compositions comprising the compounds and methods of protecting neural cells from death or degeneration.

- U.S. Patent No. 7,887,839 issued on 15 Feb 2011 entitled *Oral Formulations of Glycyl-2 Methyl Prolyl-L-Glutamate.* The patent covers a broad scope of claims for various oral formulations of NNZ-2566.

- U.S. Patent No. 8,013,170 entitled *Substituted Pyrrolo[1,2-D][1,4]-Diazonines and Treatment of Brain Damage* issued 6 September 2011. The claims cover the formula of a macrocyclic compound NNZ-2599. Neuren's proprietary macrocyclics are neuroprotective compounds characterized by the presence of a large cyclic structure that results in increased metabolic stability and greater protease resistance.

- Japanese Patent No. 2006-525,396 granted 4 October 2011 entitled *Bicyclic Compounds and Methods for Their Use in Neuroprotection*. Its claims cover the composition of: NNZ-2591, NNZ-2621 and NNZ-2622.

- U.S. Patent No. 8,067,425 issued 29 Nov 2011, entitled *Bicyclic Compounds and Methods for Their Use in Neuroprotection*. The patent covers NNZ-2591 as well as pharmaceutical compositions containing it.

In addition, the following patent applications were published in the course of the reporting period:

- U.S. Patent Application No. 12/903,844 entitled *Cognitive Enhancement and Cognitive Therapy Using Glycyl-L-2-Methylprolyl-L-Glutamic Acid* published on 12 May 2011 (Pub. No. US 2011/0112033). The application covers therapeutic uses of NNZ-2566 to treat cognitive or memory disorders.

- U.S. Patent Application No. 13/043,215 entitled *Cyclic Glycyl-2-Allyl Proline Improves Cognitive Performance in Impaired Animals* published on 18 August 2011 (Pub. No. US 2011/0201614). The application covers methods for therapeutic use of NNZ-2591 to treat cognitive disorders as well as manufacture of medicaments useful for their treatment.

- U.S. Patent Application No. 12/891,280 entitled *Cyclic G-2-Allyl Proline and Its Use in Treatment of Peripheral Neuropathy* published on 3 March 2011 (Pub. No. US 2011/0052531). The application covers methods for therapeutic use of NNZ-2591 to treat peripheral neuropathies and manufacture of medicaments that are useful for treatment of such conditions.

Financial Position

Following the rights issue and private placements undertaken in 2011, the Group ended the year with cash balances of NZ$9,844,000 (2010: NZ$1,956,000) which are expected to provide funding through 2013.

Interest income of NZ$174,000 was significantly higher in 2011 compared to 2010 due to the higher average cash balance. Grant income of NZ$4,150,000 in 2011 largely related to funding for the NNZ-2566 Phase II trial from the US Army to cover direct costs, and the reduction from 2010 matched the reduced direct costs.

Research & development costs incurred by the Group largely relate to NNZ-2566 Phase II trial costs denominated in US dollars. The year on year decrease in research & development costs was as a result of a 15% average strengthening of the NZ dollar against the US dollar throughout 2011, and NNZ-2566 drug product manufacturing runs conducted in 2010 which were not repeated in 2011. Other changes in operating costs included a reduction in patent costs as a result of patent portfolio rationalisation in prior years, an increase of NZ$806,000 in the non-cash expense related to the issue of options to employees, directors and consultants during 2011, and foreign exchange gains largely arising on Australian dollar cash balances from the rights issue and private placements conducted in the year.

Mr Larry Glass
Chief Executive Officer

Neuren Pharmaceuticals Limited

Directors' Report

Principal Activities
Neuren Pharmaceuticals Limited (Neuren or the Company, and its subsidiaries, or the Group) is a publicly listed biopharmaceutical company focusing on the development of drugs for neurological disorders, metabolism and cancer. The drugs target acute indications of brain injury such as cognitive impairment 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; Motiva® and NNZ-2566 presently in clinical development to treat four different neurological conditions, and NNZ-2591 in preclinical development for Parkinson's disease dementia and other chronic neurodegenerative conditions. The Group has operations in New Zealand and the United States.

Performance Overview
During 2011 patient recruitment continued in the Phase II trials for two of Neuren's lead candidates; NNZ-2566 and Motiva®. A Phase I safety study for oral administration of NNZ-2566 also commenced in 2011 beginning the programme of clinical trials for the use of NNZ-2566 in concussion and Rett Syndrome. Funding for the NNZ-2566 Phase I and II trials and oral development continues to be provided by the US Army, with a further NZ$4 million received in the year. The Motiva® trial is being undertaken by Prof. Sergio Starkstein, MD, PhD at Fremantle Hospital, Perth, and is funded by a grant from the National Health and Medical Research Council (Australia) directly to the principal investigator. Neuren's subsidiary Perseis also continued to develop its monoclonal antibodies against breast cancer and by year end in vivo testing had been initiated.

Neuren's operations for 2011 are described further in the Chief Executive's Report on pages 1 to 5.

All amounts are shown in New Zealand dollars unless otherwise stated.

The Group's net loss for the year ended 31 December 2011 was $6,232,000 (2010: $6,573,000). The detailed financial statements are presented on pages 14 to 32.

The net deficit per share for 2011 was $0.01 (2010: $0.02) based on 764,781,209 weighted average number of shares outstanding (2010: 384,916,420).

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

Directors
Dr Robin Congreve, LLM, PhD (Chairman)
Dr Congreve was for many years a partner in Russell McVeagh McKenzie Bartleet & Co specialising in taxation and business law. He was subsequently on the Boards of or chaired a number of public and private companies including NZ Railways Corporation, BNZ, Comalco NZ Limited, Lion Nathan Limited and TruTest Limited. He is a principal of Oceania & Eastern Group, a New Zealand private equity group which has provided private equity funding to both Neuren's predecessor companies, NeuronZ and EndocrinZ. Dr Congreve was founding Chairman of the Auckland Medical School Foundation which led to the formation of NeuronZ within the University of Auckland and subsequently to the introduction of private equity into that company and EndocrinZ.

Dr Trevor Scott, MNZM, LLD (Hon), BCom, FCA, FNZIM, DF Inst D (Non-Executive Director)
Dr Scott is founder of T.D. Scott and Co., an accountancy and consulting firm, which he formed in 1988. He is an experienced advisor to companies across a variety of industries. Dr Scott serves on numerous corporate boards and is chairman of several, including Mercy Hospital Dunedin Limited and Arthur Barnett Limited. He is also a director of Argosy Property Trust Limited (formerly ING Property Trust Limited) which is listed on the New Zealand Stock Exchange.

Dr Douglas Wilson, MB, ChB, PhD (Non-Executive Director)
Dr Wilson was originally a medical academic with postgraduate experience in Auckland, London, Oxford and Walter and Eliza Hall Institute, Melbourne. He then spent many years in the international pharmaceutical industry, firstly as Senior Vice-President for Boehringer Ingelheim USA. Dr Wilson was responsible for all drugs and clinical development and all interactions with the FDA. He then carried these responsibilities worldwide at Boehringer Ingelheim Head Office in Germany. He has overseen multiple drugs at all phases of development including bringing many drugs successfully to the market in the USA. Dr Wilson is now a consultant to the biotechnology sector.

Dr Graeme Howie, BSc (Hons), PhD (Non-Executive Director)
Dr Howie has over 27 years of management experience in the international pharmaceutical industry with a strong and diverse background in research and development, product development, manufacturing and commercial fields. His most recent experience is in recombinant biotech product development and was until December 2004 a senior executive at Pfizer Inc., based in New York. Dr Howie has extensive international experience in technical and commercial due diligence activities, including in-licensing. He also led and was responsible for new delivery route feasibility studies on human growth hormone and has been responsible for the development and registration of various products throughout the USA, Europe, Australia and Asia.

Dr John Holaday, PhD (Non-Executive Director)
Dr Holaday, a veteran life-science entrepreneur, has built five public and private biopharmaceutical companies over the past 21 years and raised more than US$450 million in capital. Dr Holaday founded EntreMed in 1992 and served as its Chairman, President and CEO until his retirement in 2003 and was the co-founder, director, Scientific Director and SVP of Medicis Pharmaceutical Corporation. He was the founder and Chief of the Neuropharmacology Branch at the Walter Reed Army Institute of Research for 21 years. Dr Holaday has received numerous honours and awards, including induction into Ernst and Young's Entrepreneur of the Year 2006 Hall of Fame. He holds over 60 U.S. and foreign patents, has published more than 200 scientific articles and reviews, and edited five books. He is currently CEO of QRxPharma, a listed specialty pharmaceutical company specialising in pain and CNS diseases.

Mr Bruce Hancox, BCom (Non-Executive Director)
Mr Hancox joined the Neuren Board in March 2012. Mr Hancox has had a long and distinguished career in business in New Zealand and Australia. He was for many years involved with Brierley Investments Limited as General Manager, Group Chief Executive and Chairman. He also served as a director of many Brierley subsidiaries in New Zealand, Australia and the United States. Mr Hancox became an Australian resident in 2006. Since then he has pursued various private investment interests and has been a director of and consultant to a number of companies. He has acted as advisor on a number of takeover situations. In 2007 he was appointed to the board of Australian listed company Retail Food Group Limited and became its Chairman in 2011.

Interests Register
The Company is required to maintain an interests register in which particulars of certain transactions and matters involving Directors must be recorded. Details of the entries in this register for each of the Directors are as follows:

Dr R L Congreve
Dr Congreve is a director of Oceania & Eastern Biotech Limited, EndocrinZ Founders Limited, and Hazardous Investments Limited, all shareholders of the Company. Dr Congreve does not have any other interests considered to cause any potential conflict of interests.

Dr T D Scott
Dr Scott is a director of Centralo Limited, a shareholder of the Company, and Essex Castle Limited, a nominee company. Dr Scott is also the chairman of Mercy Hospital Dunedin Limited which also operates in the biotechnology/pharmaceutical industry. Dr Scott does not have any other interests considered to cause any potential conflict of interests.

Dr J D Wilson
Dr Wilson was appointed a director of Phylogica Limited, a Perth, Australia, based biopharmaceutical drug discovery company, in March 2008. Dr Wilson does not have any other disclosed interests considered to cause any potential conflict of interests.

Dr G B Howie
Dr Howie does not have any interests considered to cause any potential conflict of interests.

Dr J Holaday
Dr Holaday is CEO of QRxPharma, a listed specialty pharmaceutical company specialising in pain and CNS diseases. Dr Holaday does not have any other interests considered to cause any potential conflict of interests.

Mr B Hancox
Mr Hancox does not have any interests considered to cause any potential conflict of interests.

The details of each Director's relevant interests in securities of the Company are disclosed in the "Other Information" section of this Annual Report.

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

Indemnification and Insurance of Directors and Officers
Neuren has arranged Directors and Officers Liability Insurance that provides that generally Directors and Officers will incur no monetary loss as a result of actions undertaken by them as Directors and Officers. The insurance does not cover liabilities arising from criminal activities or deliberate or reckless acts or omissions.

Remuneration of Directors	**Directors' Fees 2011 $'000**	**Other Remuneration 2011 $'000**	**Directors' Fees 2010 $'000**	**Other Remuneration 2010 $'000**
Dr Robin Congreve (Chairman)	60	40	60	40
Dr John Holaday	35	-	35	-
Dr Graeme Howie	35	-	35	-
Dr Trevor Scott	40	20	40	20
Dr Doug Wilson	35	-	35	-

Details regarding Share Option Plan awards to directors in accordance with approvals sought under ASX Listing Rule 10.14 are set out under "Additional Information" on page 35 of this Annual Report.

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

	2011 $'000	**2010 $'000**
$110,000 - $119,999	-	1
$120,000 - $129,999	1	-
$130,000 - $139,999	-	1
$140,000 - $149,999	-	1
$160,000 - $169,999	1	-
$170,000 - $179,999	-	1
$200,000 - $209,999	-	1
$210,000 - $219,999	1	-
$240,000 - $249,999	1	-
$300,000 - $309,999	-	1
$380,000 - $389,999	1	-

Donations
The Company made no donations during the year (2010: nil).

Auditors
PricewaterhouseCoopers are the auditors of the Company. Audit fees in relation to the annual and interim financial statements were $47,000 (2010: $51,000). During 2011 PricewaterhouseCoopers also received $1,000 (2010: $8,600) in relation to other financial advice and services.

Neuren Pharmaceuticals Limited

Corporate Governance Statement

The Directors have adopted practices and procedures for the good corporate governance of the Company. These practices and procedures establish the framework of how the Directors carry out their duties and discharge their obligations. The Company has adopted appropriate policies and practices as provided by the ASX Listing Rules and the Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council ("Council") in March 2003, revised in August 2007 (2nd edition) and amended in June 2010 which are as follows:

Principle 1.	Lay solid foundations for management and oversight
Principle 2.	Structure the Board to add value
Principle 3.	Promote ethical and responsible decision-making
Principle 4.	Safeguard integrity in financial reporting
Principle 5.	Make timely and balanced disclosure
Principle 6.	Respect the rights of shareholders
Principle 7.	Recognise and manage risk
Principle 8.	Remunerate fairly and responsibly

Neuren's corporate governance practices were fully compliant with the Council's best practice recommendations apart from the following recommendations:

Recommendation 2.4: The Board should establish a nomination committee
The Board has previously considered establishing a Nomination Committee, however due to the small number of Directors the Board considers it more efficient for the selection and appointment of Directors to be considered by the Board itself. It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of non-executive Directors on a case by case basis and in conformity with the requirements of the Listing Rules. The Board may also engage an external consultant where appropriate to identify and assess suitable candidates who meet the Board's specifications.

Recommendation 3.2: The Board should establish a policy concerning diversity (including gender diversity)
The Board has considered establishing a diversity policy, however due to the small number and low turnover of employees within the Group and the legislative framework regarding employment matters within which the Group operates, a separate formal diversity policy has not been adopted. The Group does not discriminate on the basis of age, ethnicity or gender in any employment matters, and when a position becomes vacant the Group seeks to employ the best candidate available for the position. Recruitment agencies are used to assist with identifying and assessing candidates. The Group presently employs nine people with a number of different cultural backgrounds, of which five are women, and two of them hold senior executive positions. In addition, at board level, there are presently eight directors (including subsidiary appointments) of which one is a woman.

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

The Board appoints the Chief Executive Officer and the responsibility for the operation and administration of the Company has been delegated to the Chief Executive Officer and senior management. The Board ensures this team is appropriately qualified to discharge their responsibilities and reviews the performance of the Chief Executive Officer annually against agreed objectives. This performance review was conducted in early 2011 and 2012. The Chief Executive Officer is responsible for reviewing annually the performance of senior management.

The Board ensures management's objectives and activities are aligned with the expectations and risks identified by the Board through a number of mechanisms including the following:
- establishment of the overall strategic direction and leadership of the Company;
- approving and monitoring the implementation by management of the Company's strategic plan to achieve those objectives;
- reviewing performance against its stated objectives, by receiving regular management reports on business situation, opportunities and risks;

- monitoring and review of the Company's controls and systems including those concerned with regulatory matters to ensure statutory compliance and the highest ethical standards; and
- review and adoption of the annual budget and monitoring the results against stated targets.

The Board reviews its corporate strategy and financial targets in terms of shareholder expectations, performance and potential in the interests of creating long-term value for shareholders.

The Board considers corporate governance to be an important element of its responsibilities. It meets regularly throughout the year.

Board Composition
The Company must have between 3 and 9 Directors. The independence and tenure of each Director at the date of this report is as follows:

Director	Position	Independence	Term in Office
Dr Robin Congreve	Chairman – Non-executive director	Independent	10
Dr John Holaday	Non-executive director	Independent	2
Dr Graeme Howie	Non-executive director	Independent	7
Dr Trevor Scott	Non-executive director	Independent	9
Dr Doug Wilson	Non-executive director	Independent	8

Mr Bruce Hancox was appointed to the board as an independent and non-executive director on 6 March 2012.

The Board's composition, performance, and the independence of Directors are regularly reviewed by the Chairman and lead independent director, Dr Scott, to ensure that the Board has the appropriate mix of independence, expertise and experience. The Board has previously considered establishing a Nomination Committee, however due to the small number of Directors the Board considers it more efficient for the selection and appointment of Directors to be considered by the Board itself.

It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of non-executive Directors on a case by case basis and in conformity with the requirements of the Listing Rules. The Board may also engage an external consultant where appropriate to identify and assess suitable candidates who meet the Board's specifications.

The relevant skills, experience and expertise of each Board member are set out in the Directors' Report.

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

Board Committees
It is the Board's policy that Committees it has established should:
- be entitled to obtain such resources and information from the Company including direct access to employees of and advisers to the Company as it may require; and
- operate in accordance with the terms of reference established by the Board.

Remuneration and Audit Committee
The Remuneration and Audit Committee must have a minimum of 2 non-executive directors. Currently the Committee members are Dr Scott (Chair), Dr Congreve, Dr Holaday, and Mr Hancox. The Committee operates under terms of reference approved by the Board. It is responsible for undertaking a broad review of, ensuring compliance with, and making recommendations in respect of, the Company's internal financial controls, legal compliance obligations and remuneration policies. It is also responsible for:
- review of audit assessment of the adequacy and effectiveness of internal controls over the Company's accounting and financial reporting systems, including controls over computerised systems;
- review of the audit plans and recommendations of the external auditors;
- evaluating the extent to which the planned scope of the audit can be relied upon to detect weaknesses in internal control, fraud and other illegal acts;
- review of the results of audits, any changes in accounting practices or policies and subsequent effects on the financial statements and make recommendations to management where necessary and appropriate;
- review of the performance and fees of the external auditor;
- audit of legal compliance including trade practices, corporations law, occupational health and safety and environmental statutory compliance , and compliance with the Listing Rules of the ASX;
- supervision of special investigations when requested by the Board;

- setting and reviewing compensation policies and practices of the Company;
- setting and reviewing remuneration of the Directors, Chief Executive Officer and members of the executive team; and
- setting and reviewing the Company's equity plans for employees and/or Directors.

All members of the Committee meet at least twice during the year. In undertaking these tasks the Remuneration and Audit Committee meets separately with management and external auditors where required. The Committee also seeks assurances from the Chief Executive Officer and Chief Financial Officer in respect of the accuracy and compliance of the Company's annual and half-year financial statements and effectiveness of the Company's management of its material business risks.

Diversity
The Board has considered establishing a diversity policy, however due to the small number and low turnover of employees within the Group and the legislative framework regarding employment matters within which the Group operates, a separate formal diversity policy has not been adopted. The Group does not discriminate on the basis of age, ethnicity or gender in any employment matters, and when a position becomes vacant the Group seeks to employ the best candidate available for the position. Recruitment agencies are used to assist with identifying and assessing candidates, however employee turnover is low with the average term of employment currently at 6.0 years. The Group presently employs nine people with a number of different cultural backgrounds, of which five are women, and two of them hold senior executive positions. In addition, at board level, there are presently eight directors (including subsidiary appointments) of which one is a woman.

Ethical Standards and Share Trading
The Company recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity or share trading.

The Constitution permits Directors to acquire shares in the Company. The Company's share trading policy prohibits Directors, executives and employees from acquiring or disposing of securities unless this occurs during a 42 day period commencing 24 hours after the announcement to the ASX of the quarterly, half-yearly and annual results and/or after the conclusion of the Company's Annual General Meeting and provided that the person is not in possession of price sensitive information and the trading is not for short-term or speculative gain. Other trading may only occur with Board approval.

Continuous Disclosure
As a listed company, Neuren is required to comply with the continuous disclosure requirements as set out in the ASX Listing Rules. The Company discloses to the ASX any information concerning the Company which a reasonable person would expect to have a material effect on the price or value of securities of the Company, unless certain exemptions from the obligation to disclose apply.

All relevant information provided to the ASX is also posted onto the Company's corporate website www.neurenpharma.com, in compliance with the continuous disclosure requirements of the Listing Rules.

Rights of Shareholders
The Board strives to communicate regularly and clearly with shareholders, the principal methods being through the Company's annual and half-year reports, and Company announcements posted on the Company's website. Shareholders are encouraged to attend and participate at general meetings, which the Auditors are also invited to attend.

Identification and Management of Significant Business Risk
The Board has identified the significant areas of potential business and legal risk for the Company.

The identification, monitoring and, where appropriate, the reduction of significant risk to the Company are monitored by the Board. The Board reviews and monitors the parameters under which such risks will be managed.

The Board has identified the Company's activities in conducting clinical trials on humans as a significant area of risk. The Board has established policies and procedures to mitigate the risks involved in this area. These include:

- all clinical activities are covered by clinical trials insurance policies at levels of coverage deemed acceptable by the Board and Chief Executive Officer;
- all clinical trials and studies involving human subjects are overseen by an independent Data Safety and Monitoring Committee (DSMC), the composition and charter for which are fully compliant with FDA and ICH guidelines ;

- for clinical trials involving patients, a Clinical Advisory Board comprising board-certified experts in the relevant clinical specialties and subspecialties provides advice and guidance to the CEO in the design and implementation of trials from both ethical and safety perspectives;
- for clinical trials conducted in the US, a Medical Monitor oversees pharmacovigilance and safety reporting procedures and practices;
- all emergent safety issues are immediately brought to the attention of the DSMC by the Medical Monitor which has unilateral authority to unblind data and, if deemed necessary, to halt enrolment;
- before any clinical trial is initiated, protocols are reviewed and approved by cognizant national regulatory agencies (e.g., FDA, Med-Safe, Australian Therapeutic Goods Administration), a central Institutional Review Board (IRB) and independent IRBs or Ethics Committees at each participating clinical centre which are fully independent of Company management;
- clinical operations management staff maintain current certification by the Association of Clinical Research Professionals with respect to knowledge of and compliance with clinical research regulations and guidelines and Good Clinical Practices; and
- the Company employs a full-time Director of Quality Assurance and Regulatory Affairs to oversee compliance with FDA/ICH guidelines for preclinical research, manufacturing and clinical trials. This person reports directly to the CEO.

The Remuneration and Audit Committee also assists the Board in its monitoring of financial and operational risk.

Remuneration

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

The Remuneration and Audit Committee of the Board is responsible for determining and reviewing compensation arrangements for the Directors, Chief Executive Officers and members of the executive team. The Committee assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. To assist in achieving these objectives, the Remuneration and Audit Committee links the nature and amount of executive Directors' and Officers' emoluments to the Company's performance.

Remuneration of Executives comprises base salary and an "at-risk" (bonus) component, the payment of which is dependent upon individual, team and Company performance relative to specific targets. Executive performance and remuneration is reviewed formally each year.

Long-term incentive arrangements have been provided by participation in a share option plan to ensure key employees maintain a long-term interest in the growth and value of the Company.

Non-executive Director fees are determined by the Board within the aggregate limit for Directors' fees approved by shareholders. The current remuneration level for the Chair is $60,000 and for non-executive Directors is $25,000 per year with an additional $10,000 for committee membership and $5,000 for committee Chairs. Executive Directors do not receive Directors fees. Directors and Executives receive no retirement allowances. New Zealand Companies Act disclosures with regard to Directors' Fees and Executives' remuneration are set out in the Directors' Report.

Neuren Pharmaceuticals Limited

Financial Statements
for the year ended 31 December 2011

Neuren Pharmaceuticals Limited

Statements of Comprehensive Income
for the year ended 31 December 2011

	Notes	Consolidated 2011 NZ$'000	Consolidated 2010 NZ$'000	Parent 2011 NZ$'000	Parent 2010 NZ$'000
Revenue - interest income		174	52	166	34
		174	52	166	34
Other income - grants		4,150	6,122	-	-
Total revenue and other income		4,324	6,174	166	34
Depreciation and amortisation expense		(465)	(529)	(95)	(119)
Loss on disposal of intangible assets		-	(225)	-	(225)
Research and development costs		(7,002)	(9,241)	(1,374)	(966)
Patent costs		(192)	(401)	(80)	(143)
Share option compensation expense		(1,729)	(923)	(1,729)	(923)
Foreign exchange gain (loss)		299	(78)	315	(21)
Interest expense		(8)	(2)	(8)	(2)
Corporate and administrative costs		(1,459)	(1,348)	(1,233)	(1,119)
Loss before income tax	4	(6,232)	(6,573)	(4,038)	(3,484)
Income tax expense	5	-	-	-	-
Loss after income tax		(6,232)	(6,573)	(4,038)	(3,484)
Other comprehensive income (expense), net of tax					
Exchange differences on translation of foreign operations		(70)	(317)	-	-
Total comprehensive loss		$ (6,302)	$ (6,890)	$ (4,038)	$ (3,484)
Profit (loss) after income tax attributable to:					
Equity holders of the company		(6,113)	(6,445)	(4,038)	(3,484)
Minority interest		(119)	(128)	-	-
		$ (6,232)	$ (6,573)	$ (4,038)	$ (3,484)
Total comprehensive loss attributable to:					
Equity holders of the company		(6,183)	(6,762)	(4,038)	(3,484)
Minority interest		(119)	(128)	-	-
		$ (6,302)	$ (6,890)	$ (4,038)	$ (3,484)
Basic and diluted loss per share	6	$ (0.01)	$ (0.02)		

The notes on pages 18 to 32 form part of these financial statements

Neuren Pharmaceuticals Limited

Statements of Financial Position
as at 31 December 2011

	Notes	Consolidated 2011 NZ$'000	Consolidated 2010 NZ$'000	Parent 2011 NZ$'000	Parent 2010 NZ$'000
ASSETS					
Current assets:					
Cash and cash equivalents	7	9,844	1,956	9,797	653
Trade and other receivables	8	138	430	1,015	765
Total current assets		9,982	2,386	10,812	1,418
Non-current assets:					
Property, plant and equipment	9	6	23	6	21
Intangible assets	10	4,651	5,121	544	622
Investments in subsidiaries	15	-	-	4,257	4,257
Total non-current assets		4,657	5,144	4,807	4,900
TOTAL ASSETS		$ 14,639	$ 7,530	$ 15,619	$ 6,318
LIABILITIES AND EQUITY					
Current liabilities:					
Trade and other payables	11	2,204	2,257	1,387	1,399
Convertible note – short term	12	-	598	-	598
Lease incentive – short term		9	12	9	12
Total current liabilities		2,213	2,867	1,396	2,009
Non-current liabilities:					
Lease incentive – long term		-	9	-	9
Total liabilities		2,213	2,876	1,396	2,018
EQUITY					
Share capital	13	80,374	68,858	80,374	68,858
Other reserves		8,361	5,986	8,498	6,053
Accumulated deficit		(76,250)	(70,137)	(74,649)	(70,611)
Total equity attributable to equity holders		12,485	4,707	14,223	4,300
Minority interest in equity		(59)	(53)	-	-
Total equity		12,426	4,654	14,223	4,300
TOTAL LIABILITIES AND EQUITY		$ 14,639	$ 7,530	$ 15,619	$ 6,318

The notes on pages 18 to 32 form part of these financial statements

For and on behalf of the Board of Directors who authorised the issue of these financial statements on 27 March 2012.

Dr Robin Congreve
Chairman

Dr Trevor Scott
Director

Neuren Pharmaceuticals Limited

Statements of Changes in Equity
for the year ended 31 December 2011

Consolidated	Share Capital NZ$'000	Share Option Reserve NZ$'000	Foreign Currency Translation Reserve NZ$'000	Accumulated Deficit NZ$'000	Total Attributable to Equity Holders NZ$'000	Minority Interest NZ$'000	Total Equity NZ$'000
Equity as at 1 January 2010	$ 69,344	$ 3,351	$ 250	$ (63,692)	$ 9,253	$ (175)	$ 9,078
Shares issued on conversion of notes	1,759				1,759		1,759
Share issue costs expensed	(466)				(466)		(466)
Share option grants for services	(1,779)	2,702			923		923
Minority interest issued in subsidiary					-	250	250
Comprehensive loss for the year			(317)	(6,445)	(6,762)	(128)	(6,890)
Equity as at 31 December 2010	$ 68,858	$ 6,053	$ (67)	$ (70,137)	$ 4,707	$ (53)	$ 4,654
Shares issued in private placements	6,330				6,330		6,330
Shares issued in rights issue	4,774				4,774		4,774
Shares issued on option exercise	311				311		311
Shares issued on conversion of notes	928				928		928
Share issue costs expensed	(111)				(111)		(111)
Share option grants for services	(716)	2,445			1,729		1,729
Minority interest issued in subsidiary					-	113	113
Comprehensive loss for the year			(70)	(6,113)	(6,183)	(119)	(6,302)
Equity as at 31 December 2011	$ 80,374	$ 8,498	$ (137)	$ (76,250)	$ 12,485	$ (59)	$ 12,426

Parent	Share Capital NZ$'000	Share Option Reserve NZ$'000	Foreign Currency Translation Reserve NZ$'000	Accumulated Deficit NZ$'000	Total Attributable to Equity Holders NZ$'000
Equity as at 1 January 2010	$ 69,344	$ 3,351	$ -	$ (67,127)	$ 5,568
Shares issued on conversion of notes	1,759				1,759
Share issue costs expensed	(466)				(466)
Share option grants for services	(1,779)	2,702			923
Comprehensive loss for the year				(3,484)	(3,484)
Equity as at 31 December 2010	$ 68,858	$ 6,053	$ -	$ (70,611)	$ 4,300
Shares issued in private placements	6,330				6,330
Shares issued in rights issue	4,774				4,774
Shares issued on option exercise	311				311
Shares issued on conversion of notes	928				928
Share issue costs expensed	(111)				(111)
Share option grants for services	(716)	2,445			1,729
Comprehensive loss for the year				(4,038)	(4,038)
Equity as at 31 December 2011	$ 80,374	$ 8,498	$ -	$ (74,649)	$ 14,223

The notes on pages 18 to 32 form part of these financial statements

Neuren Pharmaceuticals Limited

Statements of Cash Flows
for the year ended 31 December 2011

	Consolidated		Parent	
	2011 NZ$'000	2010 NZ$'000	2011 NZ$'000	2010 NZ$'000
Cash flows from operating activities:				
Receipts from grants	4,150	6,410	-	288
Interest received	174	52	165	34
GST refunded	57	138	67	112
Interest paid	-	(2)	-	(2)
Payments to employees	(1,545)	(1,254)	(1,398)	(1,068)
Payments to other suppliers	(6,948)	(9,129)	(1,311)	(2,486)
Net cash used in operating activities	(4,112)	(3,785)	(2,477)	(3,122)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(2)	(7)	(2)	(7)
Advance (to) from subsidiaries	-	-	(303)	738
Net cash used in investing activities	(2)	(7)	(305)	731
Cash flows from financing activities:				
Proceeds from the issue of shares	11,104	-	11,104	-
Proceeds from the exercise of options	311	-	311	-
Proceeds from the issue of convertible notes	316	1,835	316	1,835
Proceeds from minority interest	113	250	-	-
Repayment of equipment financing	-	(11)	-	(11)
Payment of share issue expenses	(113)	(478)	(113)	(478)
Net cash provided from financing activities	11,731	1,596	11,618	1,346
Net (decrease) increase in cash	7,617	(2,196)	8,836	(1,045)
Effect of exchange rate changes on cash balances	271	(80)	308	3
Cash at the beginning of the year	1,956	4,232	653	1,695
Cash at the end of the year	$ 9,844	$ 1,956	$ 9,797	$ 653
Reconciliation with loss after income tax:				
Loss after income tax	$ (6,232)	$ (6,573)	$ (4,038)	$ (3,484)
Non-cash items requiring adjustment:				
Depreciation of property, plant and equipment	19	36	17	33
Amortisation of intangible assets	446	493	78	86
Convertible note interest	8	-	8	-
Loss on disposal of intangible assets	-	225	-	225
Share option compensation expense	1,729	923	1,729	923
Foreign exchange (gain) loss	(299)	78	(315)	21
Lease incentive amortisation	(12)	(12)	(12)	(12)
Changes in working capital:				
Trade and other receivables	282	1,817	-	308
Trade and other payables	(53)	(772)	56	(1,222)
Net cash used in operating activities	$ (4,112)	$ (3,785)	$ (2,477)	$ (3,122)

The notes on pages 18 to 32 form part of these financial statements

Notes to the Financial Statements
for the year ended 31 December 2011

1. Nature of business

Neuren Pharmaceuticals Limited (Neuren or the Company, and its subsidiaries, or the Group) is a publicly listed biopharmaceutical company focusing on the development of drugs for neurological disorders, metabolism and cancer. The drugs target acute indications of brain injury such as cognitive impairment resulting from cardiac surgery and 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; Motiva™ and NNZ-2566 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. The Group has operations in New Zealand and the United States.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office in New Zealand is level 2, 57 Wellington Street, Auckland, and in Australia Level 13, 122 Arthur Street, North Sydney. Neuren has its primary listing on the Australian Securities Exchange (ASX code: NEU).

These consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2012.

Inherent Uncertainties

- There are inherent uncertainties associated with assessing the carrying value of the acquired intellectual property. The ultimate realisation of the carrying values of intellectual property totalling $4,651,000 (after amortisation) is dependent on the Company and Group successfully developing its products, on licensing the products, or divesting the intellectual property so that it generates future economic benefits to the Company.

- The Group's research and development activities involve inherent risks. These risks include, among others: dependence on, and the Group's ability to retain key personnel; the Group's ability to protect its intellectual property and prevent other companies from using the technology; the Group's business is based on novel and unproven technology; the Group's ability to sufficiently complete the clinical trials process; and technological developments by the Group's competitors may render its products obsolete.

- The Company has a business plan which will require a high level of expenditure until product revenue streams are established and therefore expects to continue to incur additional net losses until then. In the future, the Company will need to raise further financing through other public or private equity financings, collaborations or other arrangements with corporate sources, or other sources of financing to fund operations. There can be no assurance that such additional financing, if available, can be obtained on terms reasonable to the Company. In the event the Company is unable to raise additional capital, future operations will need to be curtailed or discontinued.

2. Summary of significant accounting policies

These general-purpose financial statements are for the year ended 31 December 2011 and have been prepared in accordance with and comply with generally accepted accounting practice in New Zealand, International Financial Reporting Standards, New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for profit-oriented entities.

(a) Basis of preparation

Entities Reporting

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 31 December 2011 and the results of all subsidiaries for the year then ended. Neuren Pharmaceuticals Limited and its subsidiaries, which are designated as profit-oriented entities for financial reporting purposes, together are referred to in these financial statements as the Group.

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

Statutory Base

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

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

Historical cost convention

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

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Company to exercise its judgement in the process of applying the Company's accounting policies such as in relation to impairment, if any, of intangible assets set out in note 10. Actual results may differ from those estimates.

Changes in accounting policies
There were no changes in accounting policies in the year ended 31 December 2011.

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

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

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

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

(c) Segment Reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

(d) Foreign Currency Translation
(i) Functional and Presentation Currency
Items included in the financial statements of each of the Group's operations are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that operation ("functional currency"). The Consolidated and Parent financial statements are presented in New Zealand dollars, which is the Group's presentation currency.

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

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

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

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

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

(e) Revenue recognition
Grants
Grants received are recognised in the comprehensive income statement when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

Out-licensing and royalty revenue
Out-licensing and royalty revenue comprises income generated from technology out-licensing and research and development collaboration agreements. Where licensing agreements include non-refundable milestone income, revenue is recognised on achieving the milestones. If any milestone income is creditable against royalty payments

then it is deferred and released to the comprehensive income statement over the period in which the royalties would otherwise be receivable. Royalty income relating to the sale by a licensee of licensed product is recognised on an accruals basis in accordance with the substance of the relevant agreement and based on the receipt from the licensee of the relevant information to enable calculation of the royalty due.

Contract research
Where science projects are recognised on an individual project basis and span more than one year, the percentage of completion method is used to determine the appropriate amount of revenue to recognise in a given year over the life of the project. Contract revenue is recognised when earned and non-refundable and when there are no future obligations pursuant to the revenue, in accordance with the contract terms. The full amount of an anticipated loss, including that relating to future work on the contract, is recognised as soon as it is foreseen.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(p) Borrowing Costs
Borrowing costs are expensed as incurred.

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

Share-based payments
Neuren operates an equity-settled share option plan and awards certain employees and consultants share options, from time to time, on a discretionary basis. The fair value of the services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in other reserve equity over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest and become exercisable. It recognises the impact of the revision of original estimates, if any, in the comprehensive income statement, and a corresponding adjustment to equity over the remaining vesting period.

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

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

(s) Financial instruments
Financial instruments recognised in the statement of financial position include cash and cash equivalents, trade and other receivables and payables, equipment finance and convertible notes. The Company believes that the amounts reported for financial instruments approximate fair value.

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

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

Borrowings
Borrowings, which include convertible notes and equipment financing, are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost unless part of an effective hedging relationship. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the comprehensive income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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

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

- NZ IFRS 9 Financial Instruments (mandatory for periods beginning on or after 1 January 2013) replaces the multiple classification and measurements models in IAS 39 Financial Instruments: Recognition and measurements with a single model that has only two classification categories: amortised cost and fair value. This will affect future financial statements through disclosure only.
- In May 2011 there were a number of minor amendments to NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 11 Joint Arrangements, NZ IFRS 12 Disclosure of Interests in other Entities and revised NZ IAS 27 Separate Financial Statements and NZ IAS 28 Investments in Associates and Joint Ventures which are effective from 1 January 2013. The Group does not intend to adopt these new standards until the effective date.
- NZ IFRS 13 Fair Value Measurement was released in June 2011 and specifies fair value measurement and fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques and disclosures will be impacted. The Group does not intend to adopt the new standard before its effective date of 1 January 2013.
- An amendment to NZ IAS 1 Presentation of Financial Statements was issued in December 2011. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). This amendment will not affect the measurement of any items recognised in the balance sheet or the profit or loss in the current period, and the Group intends to adopt the amended standard from 1 January 2013.

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

3. Segment information

(a) Description of Segments
The chief operating decision maker has been identified as the CEO, who reviews the business largely on a geographic basis and assesses results from New Zealand and the USA separately. The information reviewed is prepared in the same format as included in the financial statements.

(b) Geographic Segments

Consolidated	2011 New Zealand NZ$'000	2011 United States NZ$'000	2011 Consolidation Adjustments NZ$'000	2011 Total Group NZ$'000
Segment revenue	297	4,027	-	4,324
Segment result before minority interest	(4,468)	(1,764)	-	(6,232)
Segment assets	15,672	4,168	(5,201)	14,639
Segment liabilities	1,664	1,493	(944)	2,213
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	2	-	-	2
Depreciation and amortisation expense	99	366	-	465

Consolidated	2010 New Zealand NZ$'000	2010 United States NZ$'000	2010 Consolidation Adjustments NZ$'000	2010 Total Group NZ$'000
Segment revenue	111	6,063	-	6,174
Segment result before minority interest	(3,945)	(2,628)	-	(6,573)
Segment assets	6,523	5,999	(4,992)	7,530
Segment liabilities	2,121	1,490	(735)	2,876
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	7	-	-	7
Depreciation and amortisation expense	124	405	-	529
Loss on disposal of intangible asset	225	-	-	225

4. Expenses

	Consolidated		Parent	
	2011 NZ$'000	2010 NZ$'000	2011 NZ$'000	2010 NZ$'000
Loss before income tax includes the following specific expenses:				
Depreciation – property, plant and equipment				
Scientific equipment	8	19	8	19
Computer equipment	6	6	4	3
Fixtures and fittings	3	9	3	9
Leasehold improvements	2	2	2	2
Total depreciation	19	36	17	33
Amortisation – intangible assets				
Intellectual property	446	493	78	86
Total amortisation	446	493	78	86
Remuneration of auditors				
Audit fees	47	51	43	43
Advisory fees	-	8	-	8
Taxation fees	1	1	1	1
Total remuneration of auditors	48	60	44	52
Employee benefits expense				
Salaries and wages	1,567	1,324	1,421	1,137
Share option compensation	833	923	833	923
Total employee benefits expense	2,400	2,247	2,254	2,060
Directors' fees	205	205	205	205
Directors' share option compensation	720	-	720	-
Lease expense	175	171	175	171

5. Income tax

	Consolidated		Parent	
	2011 NZ$'000	2010 NZ$'000	2011 NZ$'000	2010 NZ$'000
Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
Income tax expense	-	-	-	-
Numerical reconciliation of income tax expense to prima facie tax payable (receivable):				
Loss before income tax	(6,232)	(6,573)	(4,038)	(3,484)
Tax at rates applicable in the respective countries	(1,983)	(2,273)	(1,130)	(1,045)
Tax effect of amounts not deductible (taxable) in calculating taxable income:				
Share option compensation	484	277	484	277
Other expenses not deductible for tax purposes	-	-	-	-
	(1,499)	(1,996)	(646)	(768)
Foreign jurisdiction withholding tax	-	-	-	-
Under (over) provision in prior years	1,069	1,085	-	(2)
Deferred tax assets not recognised	430	911	646	770
Income tax expense	-	-	-	-

The weighted average applicable tax rate for New Zealand segments is 28% and for United States segments 41% (2010: 30% and 41% respectively).

6. Earnings (loss) per share

Basic loss per share is based upon the weighted average number of outstanding ordinary shares. For the years ended 31 December 2011 and 2010, the Company's potentially dilutive ordinary share equivalents (being the convertible notes set out in note 12 and the options over ordinary shares set out in note 13) have an anti-dilutive effect on loss per share and, therefore, have not been included in determining the total weighted average number of ordinary shares outstanding for the purpose of calculating diluted loss per share.

	Consolidated	
	2011 NZ$'000	2010 NZ$'000
Profit (loss) after income tax attributable to equity holders	(6,113)	(6,445)
Weighted average shares outstanding (basic)	764,781,209	384,916,420
Weighted average shares outstanding (diluted)	764,781,209	384,916,420
Basic and diluted loss per share	($0.01)	($0.02)

7. Cash and cash equivalents

	Consolidated		Parent	
	2011 NZ$'000	2010 NZ$'000	2011 NZ$'000	2010 NZ$'000
Cash	38	200	29	91
Demand and short-term deposits	9,806	1,756	9,768	562
	9,844	1,956	9,797	653

8. Trade and other receivables

	Consolidated		Parent	
	2011 NZ$'000	2010 NZ$'000	2011 NZ$'000	2010 NZ$'000
Trade receivables	24	56	24	29
Prepayments	114	374	47	41
Due from subsidiaries	-	-	944	695
	138	430	1,015	765

9. Property, plant and equipment

Parent	Scientific Equipment NZ$'000	Computer Equipment NZ$'000	Fixtures & Fittings NZ$'000	Leasehold Improvements NZ$'000	Total NZ$'000
As at 1 January 2010					
Cost	100	68	43	10	221
Accumulated depreciation	(73)	(67)	(30)	(4)	(174)
Net book value	27	1	13	6	47
Movements in the year ended 31 December 2010					
Opening net book value	27	1	13	6	47
Additions	-	7	-	-	7
Depreciation	(19)	(3)	(9)	(2)	(33)
Disposals	-	-	-	-	-
Closing net book value	8	5	4	4	21
As at 31 December 2010					
Cost	100	75	43	10	228
Accumulated depreciation	(92)	(70)	(39)	(6)	(207)
Net book value	8	5	4	4	21
Movements in the year ended 31 December 2011					
Opening net book value	8	5	4	4	21
Additions	-	2	-	-	2
Depreciation	(8)	(4)	(3)	(2)	(17)
Disposals	-	-	-	-	-
Closing net book value	-	3	1	2	6
As at 31 December 2011					
Cost	100	77	43	10	230
Accumulated depreciation	(100)	(74)	(42)	(8)	(224)
Net book value	-	3	1	2	6

In addition to the Parent's property, plant and equipment noted above, the only other property, plant and equipment within the Group was computer equipment with a cost of US$4,000 purchased in 2009 by the US based subsidiary for use in the Phase II trial of NNZ-2566. Accumulated depreciation as at 31 December 2011 was US$4,000 (2010: US$3,000) and the depreciation expense for the year ended 31 December 2011 was US$1,000 (2010: US$3,000).

10. Intangible assets

Consolidated	Intellectual Property NZ$'000	Acquired Software NZ$'000	Total NZ$'000
As at 1 January 2010			
Cost	7,660	35	7,695
Accumulated amortisation	(1,507)	(35)	(1,542)
Net book value	6,153	-	6,153
Movements in the year ended 31 December 2010			
Opening net book value	6,153	-	6,153
Amortisation	(493)	-	(493)
Loss on disposal	(225)	-	(225)
Exchange differences	(314)	-	(314)
Closing net book value	5,121	-	5,121
As at 31 December 2010			
Cost	6,873	35	6,908
Accumulated amortisation	(1,752)	(35)	(1,787)
Net book value	5,121	-	5,121
Movements in the year ended 31 December 2011			
Opening net book value	5,121	-	5,121
Amortisation	(446)	-	(446)
Exchange differences	(24)	-	(24)
Closing net book value	4,651	-	4,651
As at 31 December 2011			
Cost	6,856	-	6,856
Accumulated amortisation	(2,205)	-	(2,205)
Net book value	4,651	-	4,651

Parent	Intellectual Property NZ$'000	Acquired Software NZ$'000	Total NZ$'000
As at 1 January 2010			
Cost	1,556	35	1,591
Accumulated amortisation	(623)	(35)	(658)
Net book value	933	-	933
Movements in the year ended 31 December 2010			
Opening net book value	933	-	933
Amortisation	(86)	-	(86)
Loss on disposal	(225)		(225)
Closing net book value	622	-	622
As at 31 December 2010			
Cost	1,167	35	1,202
Accumulated amortisation	(545)	(35)	(580)
Net book value	622	-	622
Movements in the year ended 31 December 2011			
Opening net book value	622	-	622
Amortisation	(78)	-	(78)
Closing net book value	544	-	544
As at 31 December 2011			
Cost	1,167	-	1,167
Accumulated amortisation	(623)	-	(623)
Net book value	544	-	544

11. Trade and other payables

	Consolidated		Parent	
	2011 NZ$'000	2010 NZ$'000	2011 NZ$'000	2010 NZ$'000
Trade payables	1,596	1,753	807	855
Accruals	346	250	318	250
Employee benefits	262	254	262	253
Due to subsidiaries	-	-	-	41
	2,204	2,257	1,387	1,399

12. Borrowings

Consolidated and Parent	2011 NZ$'000	2010 NZ$'000
Non-interest bearing		
Convertible notes - short term	-	598
	-	598

At 31 December 2010 two convertible notes were outstanding with principal amounts of A$60,000 and A$400,000, and maturity dates of 19 January 2011 and 18 November 2011 respectively.

The principal terms of the notes were:

(a) They were unsecured and did not bear interest unless the Company elected to repay them in cash;

(b) The notes, or part thereof, convert to new ordinary shares in the Company determined by dividing the principal amount, or part thereof to be converted, by the lesser of:

(i) 130% of the average of the Volume Weighted Average Prices per share of the Company's ordinary shares quoted on the ASX ("VWAPs") for the twenty (20) business days immediately prior to 18 November 2009; and

(ii) between 85 and 90% of the lowest of the VWAPs during the twenty (20) business days immediately prior to the conversion;

(c) The ordinary shares issued upon conversion of a note will rank equally in all respects with the then existing ordinary shares on issue;

(d) The notes did not carry any voting rights at meetings of shareholders of Neuren, and had no rights of participation in any rights issue undertaken by Neuren prior to conversion of the notes.

The convertible loan agreement under which the above convertible notes were issued provided for convertible note funding until December 2011. At 31 December 2010 a minimum of A$720,000 remained available for draw down in monthly tranches of A$60,000. Pursuant to the convertible loan agreement, the Company issued for no value 13,000,000 ordinary shares as collateral for funding under the agreement.

On 4 May 2011 the convertible loan agreement was terminated, and in conjunction with this, proceeds due to the Company of A$184,600 on subscription of the previously issued collateral shares were set-off against amounts due by the Company on outstanding convertible notes before their conversion into 20,844,444 ordinary shares in June 2011.

13. Share capital

Consolidated and Parent	2011 Shares	2010 Shares	2011 NZ$'000	2010 NZ$'000
Issued share capital				
Ordinary shares on issue at beginning of year	424,764,802	352,247,451	68,858	69,344
Shares issued in private placements	384,092,211	-	6,330	-
Shares issued in rights Issue	293,484,412	-	4,774	-
Shares issued on conversion of notes	39,273,507	72,517,351	928	1,759
Shares issued on option exercise	14,249,493	-	311	-
Share issue expenses – cash issue costs	-	-	(111)	(466)
– fair value of options granted	-	-	(716)	(1,779)
	1,155,864,425	424,764,802	80,374	68,858

(a) Ordinary Shares

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

(b) Share Options

2011 option grants

From the beginning of the year until termination in May 2011 of the convertible loan agreement described in note 12, the Company granted 39,273,507 options in conjunction with monthly conversions and final conversion on termination of convertible notes under the facility. The options have a term of 4 years from their grant date and are exercisable into ordinary shares on a one-for-one basis with exercise prices ranging from A$0.0146 to A$0.0163 per share.

2010 and prior grants

Throughout 2010 the Company granted 72,517,351 options in conjunction with monthly conversions of convertible notes under the facility described in note 12. The options have a term of 4 years from their grant date and are exercisable into ordinary shares on a one-for-one basis with exercise prices ranging from A$0.0163 to A$0.0337 per share. 14,249,493 of these options were exercised on 7 November 2011 for cash proceeds of A$240,000.

On 23 December 2009 the Company granted 40,306,174 options ("December 2009 Placement Options") in conjunction with a private placement on that date. The options are exercisable into ordinary shares on a one-for-one basis with an exercise price of A$0.0457 per share. The options expire on 23 December 2013.

On 4 December 2009 the Company granted 4,629,630 options ("December 2009 Conversion Options") in conjunction with partial conversion of a convertible note. The options are exercisable into ordinary shares on a one-for-one basis with an exercise price of A$0.0389 per share. The options expire on 4 December 2013.

On 18 November 2009 the Company granted 20,000,000 options ("November 2009 Options") in conjunction with obtaining a convertible loan facility. The options are exercisable into ordinary shares on a one-for-one basis with an exercise price of A$0.0445 per share. The options expire on 18 November 2013.

On 30 September 2008 the Company granted 750,000 options ("September 2008 Options") for underwriting services. The options are exercisable into ordinary shares on a one-for-one basis with an exercise price of A$0.15 per share. The options expired on 30 September 2010.

On 26 February 2008 the Company granted 3,000,000 options ("January 2008 Options") for future consulting services related to capital raising and financing activities. The options are exercisable into ordinary shares on a one-for-one basis with an exercise price of A$0.25 per share. The options expired on 7 February 2011.

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

Share Option Plan
The Company has established a Share Option Plan to assist in the retention and motivation of senior employees of, and certain consultants to, the Company ("Participants"). Under the Share Option Plan, options may be offered to Participants by the Remuneration and Audit Committee. The maximum number of options to be issued and outstanding under the Share Option Plan is 15% of the issued ordinary shares of the Company at any time. No payment is required for the grant of options under the Share Option Plan. Each option is an option to subscribe in cash for one ordinary share, but does not carry any right to vote. Upon the exercise of an option by a Participant, each ordinary share issued will rank equally with other ordinary shares of the Company. Options granted under the Share Option Plan generally vest over three years service by the Participant and lapse five years after grant date. At 31 December 2011 there were 138 million options outstanding under the Share Option Plan (2010: 26 million).

Movements in the number of share options are as follows:

Consolidated and Parent	Options	Weighted Average Exercise Price (NZ$)	Exercisable	Weighted Average Exercise Price (NZ$)
Outstanding at 1 January 2010	70,005,804	$ 0.074	70,005,804	$ 0.074
Granted	98,517,351	$ 0.032		
Expired	(2,070,000)	$ 0.340		
Outstanding at 31 December 2010	166,453,155	$ 0.048	166,453,155	$ 0.048
Granted	161,273,507	$ 0.029		
Exercised	(14,249,493)	$ 0.022		
Expired	(3,000,000)	$ 0.325		
Outstanding at 31 December 2011	310,477,169	$ 0.036	235,810,505	$ 0.038

The weighted average remaining contractual life of outstanding share options is as follows:

	2011		2010	
Consolidated and Parent	Options	Weighted Average Remaining Contract Life (years)	Options	Weighted Average Remaining Contract Life (years)
Exercise price range				
A$0.15 – A$0.25	-	-	3,000,000	0.2
A$0. 0377 – A$0.0457	119,935,804	3.3	64,935,804	2.9
A$0. 0130 – A$0.0337	190,541,365	3.5	98,517,351	3.7
	310,477,169	3.4	166,453,155	3.4

The weighted average assessed fair value of options granted during the year determined using the Black-Scholes valuation model was NZ$0.027 per option (2010: NZ$0.027). The significant weighted average inputs into the model were a grant date share price of NZ$0.029 (2010: NZ$0.034), volatility of 130% (2010: 139%), dividend yield of 0% (2010: 0%), an expected option life of 3.6 years (2010: 3.3 years), and an annual risk-free interest rate of 3.82% (2010: 4.26%). The expected price volatility was derived by analysing the historic volatility of the Company's shares since listing on the ASX.

14. Deferred tax

	Consolidated		Parent	
	2011 NZ$'000	2010 NZ$'000	2011 NZ$'000	2010 NZ$'000
Deferred tax asset (liability)				
Amounts recognised in profit or loss				
Provisions and accruals	324	64	64	64
Property, plant and equipment	9	12	9	12
Intangible assets	(1,219)	(1,363)	(12)	(30)
Tax losses	20,818	22,376	16,440	17,361
	19,932	21,089	16,501	17,407
Unrecognised deferred tax assets	(19,932)	(21,089)	(16,501)	(17,407)
Deferred tax asset (liability)	-	-	-	-
Movements				
Deferred tax asset (liability) at the beginning of the year	-	-	-	-
Credited (charged) to the income statement (note 5)	430	911	646	770
Impact of loss of shareholder continuity	-	568	-	568
Effect of change in tax rates	(1,186)	-	(1,160)	-
Expiry of tax losses	(391)	-	(392)	-
Exchange differences	(10)	(232)	-	-
Intra-group transfer	-	-	-	(80)
Change in unrecognised deferred tax assets	1,157	(1,247)	906	(1,258)
Deferred tax asset (liability) at the end of the year	-	-	-	-

Unrecognised tax losses of $8.2 million, $10.4 million, $14.0 million, $17.5 million, $4.4 million, $2.8 million and $2.2 million expire in 2013, 2014, 2015, 2016, 2017, 2018 and 2019 respectively.

15. Subsidiaries

(a) Investment in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(b).

Name of entity	Date of incorporation	Principal activities	Interest held	Domicile	Amount due to (from) Parent 2011 NZ$'000	Amount due to (from) Parent 2010 NZ$'000
AgVentures Limited	7 October 2003	Dormant	100%	NZ	-	-
NeuroendocrinZ Limited	10 July 2002	Dormant	100%	NZ	-	-
Neuren Pharmaceuticals Inc.	20 August 2002	US Based Office	100%	USA	22	(41)
Hamilton Pharmaceuticals Inc.	2 April 2004	Clinical research	100%	USA	742	689
Neuren Pharmaceuticals (Australia) Pty Ltd	9 November 2006	Dormant	100%	Australia	-	-
Perseis Therapeutics Limited	25 March 2009	Preclinical research	72.2%	NZ	180	6

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

16. Commitments and contingencies

(a) Operating leases

The following aggregate future non-cancellable minimum lease payments for premises have been committed to by the Company, but not recognised in the financial statements. The Company's premises commitment is for a four year and four month lease commencing June 2008, with two two-year rights of renewal, followed by two five-year rights of renewal, and three yearly rental reviews throughout.

Consolidated and Parent	2011 NZ$'000	2010 NZ$'000
Not later than one year	111	148
Later than one year and not later than five years	-	111
Later than five years	-	-
	111	259

(b) Legal claims
The Company has not entered into any collaborative arrangements and has no other significant legal contingencies as at 31 December 2011.

(c) Capital commitments
The Company is not committed to the purchase of any property, plant or equipment as at 31 December 2011 (2010: nil).

17. Related party transactions

(a) Key management and personnel
The key management personnel include the directors of the Company, the CEO, and direct reports to the CEO Compensation for this group was as follows:

Consolidated and Parent		2011 NZ$'000	2010 NZ$'000
Directors'	– fees and other short term benefits	265	262
	– share option compensation	720	-
CEO and management	– short-term benefits	1,085	1,048
	– share option compensation	833	923
		2,903	2,233

During 2011, in conjunction with the rights issue offer made by the Company, Dr Trevor Scott subscribed for and was allotted 16,694,126 ordinary shares at NZ$0.017 per share.

(b) Subsidiaries
Interests in and amounts due from subsidiaries are set out in note 15. The Parent funds the activities of the subsidiaries throughout the year through the intercompany accounts as needed. All amounts due between entities in the Group are payable on demand and bear no interest. During the year ended 31 December 2011 the Parent charged Perseis Therapeutics $50,000 (2010: $56,000) for monthly management and administrative services.

18. Events after balance date

As at the date of these financial statements there were no events arising since 31 December 2011 which require disclosure.

19. Financial instruments and risk management

(a) Categories of financial instruments

	Consolidated		Parent	
	2011 NZ$'000	2010 NZ$'000	2011 NZ$'000	2010 NZ$'000
Financial assets				
Cash and cash equivalents	9,844	1,956	9,797	653
Trade receivables	24	56	24	29
Total financial assets (loans and receivables classification)	9,868	2,012	9,821	682
Financial liabilities				
Amortised cost:				
Trade and other payables	2,204	2,257	1,387	1,399
Convertible notes	-	598	-	598
Total financial liabilities	2,204	2,855	1,387	1,997

(b) Risk management
The Company and its subsidiaries are subject to a number of financial risks which arise as a result of its activities.

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

The Group does not utilise derivative financial instruments. It operates a policy of holding cash and cash equivalents in the currency of estimated future supplier payments, however it does not designate formal hedges and as such remains unhedged against foreign currency fluctuations. A foreign exchange gain of $299,000 is included in results for the year ended 31 December 2011 (2010: $78,000 loss).

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

	Consolidated		Parent	
	2011 NZ$'000	2010 NZ$'000	2011 NZ$'000	2010 NZ$'000
Assets				
US dollars	5,055	6,001	1,651	733
Australian dollars	4,241	467	4,241	467
UK pounds	2	16	2	16
Liabilities				
US dollars	1,202	1,228	460	530
Australian dollars	150	822	142	822
UK pounds	181	261	181	137

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

	Consolidated		Parent	
	2011	2010	2011	2010
Decrease (increase) in loss after income tax	NZ$'000	NZ$'000	NZ$'000	NZ$'000
10% strengthening of NZ dollar against:				
US dollar	127	285	(108)	(18)
Australian dollar	(372)	32	(373)	32
UK pound	16	22	16	11
10% weakening of NZ dollar against:				
US dollar	(155)	(348)	132	23
Australian dollar	455	(39)	455	(39)
UK pound	(20)	(27)	(20)	(13)

Foreign currency denominated transactions occur consistently throughout the year. In management's opinion, the sensitivity analysis set out above is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

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

The effective interest rates on financial assets are as follows:

	Consolidated		Parent	
	2011 NZ$'000	2010 NZ$'000	2011 NZ$'000	2010 NZ$'000
Financial assets				
Cash and cash equivalents				
New Zealand dollar cash deposits	4,666	234	4,666	120
New Zealand dollar interest rate	3.1%	3.6%	3.1%	3.6%
US dollar cash deposits	924	1,080	886	-
US dollar interest rate	0.1%	0.9%	0.1%	-
Australian dollar cash deposits	4,216	442	4,216	442
Australian dollar interest rate	3.6%	4.2%	3.6%	4.2%

The Company and Group do not have any interest bearing financial liabilities. Trade and other receivables and payables do not bear interest and are not interest rate sensitive.

The Company and Group's interest bearing financial assets bear interest at overnight deposit rates and accordingly any change in interest rates would have an immaterial effect on reported loss after tax. Similarly, the Company and Group's financial liabilities are not interest bearing, and accordingly a change in market interest rates would have no effect on reported loss after tax.

Credit risk
The Company and its subsidiaries incur credit risk from transactions with trade receivables and financial institutions in the normal course of its business. The credit risk on financial assets of the Group, which have been recognised in the statement of financial position, is the carrying amount, net of any allowance for doubtful debts.

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

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

Capital risk
The Company manages its capital to ensure that constituent entities are able to continue as a going concern. The capital structure of the group consists of cash and cash equivalents, convertible notes and equity of the parent, comprising issued capital, reserves and accumulated deficit.

Independent Auditors' Report

to the shareholders of Neuren Pharmaceuticals Limited

Report on the Financial Statements

We have audited the financial statements of Neuren Pharmaceuticals Limited (the "Company") and the Group on pages 14 to 32, which comprise the statements of financial position as at 31 December 2011, the statements of comprehensive income and statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2011 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

We have no relationship with, or interests in, Neuren Pharmaceuticals Limited or any of its subsidiaries other than in our capacities as auditors and tax consultants. These services have not impaired our independence as auditors of the Company and the Group.

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Opinion
In our opinion, the financial statements on pages 14 to 32:

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

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 31 December 2011, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements
We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2011:

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

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

Restriction on Distribution or Use
This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants, Auckland
27 March 2012

Neuren Pharmaceuticals Limited

Additional Information

Equity Securities Held by Directors as at 20 March 2012

	Interests in Ordinary Shares		Interests in Options	
Director	**Direct**	**Indirect**	**Direct**	**Indirect**
R L Congreve	-	22,386,224	20,000,000[1]	-
T D Scott	-	33,388,252	20,000,000[1]	10,604,991
J D Wilson	-	135,000	5,000,000[1]	-
G B Howie	50,000	55,000	5,000,000[1]	-
J Holaday	-	-	5,000,000[1]	-
B A Hancox	-	-	-	-

(1) In accordance with approval received from shareholders under ASX Listing Rule 10.14, the options noted were issued under the Share Option Plan to directors on 26 October 2011. Each option is unlisted, has an exercise price of A$0.0377 for one Neuren ordinary share, and expires after five years.

Shareholding

Each ordinary share is entitled to one vote when a poll is called; otherwise on a show of hands at a general meeting every member present in person or by proxy has one vote.

The number of ordinary shareholdings held in less than marketable parcels at 20 March 2012 was 848, holding 5,815,824 ordinary shares.

The following information is presented based on share registry information processed up to and including 20 March 2012.

Distribution of Shareholders Analysis of numbers of ordinary shares by size of holding:	**Number of Shareholders**	**Number of Ordinary Shares**
1 – 1,000	145	28,338
1,001 – 5,000	273	1,045,811
5,001 – 10,000	254	2,146,279
10,001 – 100,000	926	42,905,318
100,001 and over	671	1,109,738,679
	2,269	1,155,864,425

Distribution of Optionholders Analysis of numbers of options by size of holding:	**Number of Optionholders**	**Number of Options**
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	-	-
10,001 – 100,000	-	-
100,001 and over	13	310,477,169
	13	310,477,169

Substantial Security Holders who have notified the Company as at 20 March 2012 are:	**Number of Ordinary Shares**
Langley Alexander Walker (through Auckland Trust Company Limited in its capacity as trustee)	228,322,986
National Nominees Ltd ACF Australian Ethical Smaller Companies Trust	68,716,436

There are no securities subject to escrow.

Neuren Pharmaceuticals Limited

Twenty Largest Holders of ordinary shares:	**Number of Ordinary Shares**	**% Holding**
Auckland Trust Company Limited < Second Pacific Master Superannuation Fund>	228,322,986	19.75
UBS Nominees Pty Ltd <TP00014 15 A/C>	117,367,524	10.15
National Nominees Limited	92,469,629	8.00
Essex Castle Limited	39,844,696	3.45
K One W One Limited	32,611,730	2.82
HSBC Custody Nominees (Australia) Limited	24,732,444	2.14
HSBC Custody Nominees (Australia) Limited-GSCO ECA	23,188,005	2.01
Roxtrus Pty Limited <Roxanne Dunkel No 2 A/C>	19,000,000	1.64
Mr Mladen Marusic	16,100,000	1.39
J P Morgan Nominees Australia Limited	12,868,563	1.11
Citicorp Nominees Pty Limited	11,978,414	1.04
Centralo Limited	11,925,508	1.03
Mr He Zhao	11,000,000	0.95
Mr Mladen Marusic	10,949,992	0.95
Oceania & Eastern Biotech Limited	10,283,956	0.89
Mr Robert Albert Boas	10,160,806	0.88
Merrill Lynch (Australia) Nominees Pty Limited	10,092,338	0.87
ABN Amro Clearing Sydney Nominees Pty Ltd	9,813,394	0.85
Pfizer Inc	8,081,438	0.70
Mr Craig William Manners	7,900,000	0.68
	708,691,423	61.31

Australian Stock Exchange Disclosures

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

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

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

Corporations Act, Australia - Directors' declaration

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

1. The financial statements on pages 14 to 32 of Neuren and its subsidiaries for the year ended 31 December 2011 and the notes to those financial statements:
   (a) comply with the accounting standards issued by the Institute of Chartered Accountants of New Zealand; and
   (b) give a true and fair view of the financial position as at 31 December 2011 and of the performance for the year ended on that date of Neuren and its subsidiaries.
2. In the Directors' opinion there are reasonable grounds to believe that Neuren will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors dated 27 March 2012.

On behalf of the Board

Dr Robin Congreve
Chairman

ANNUAL REPORT 2011

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