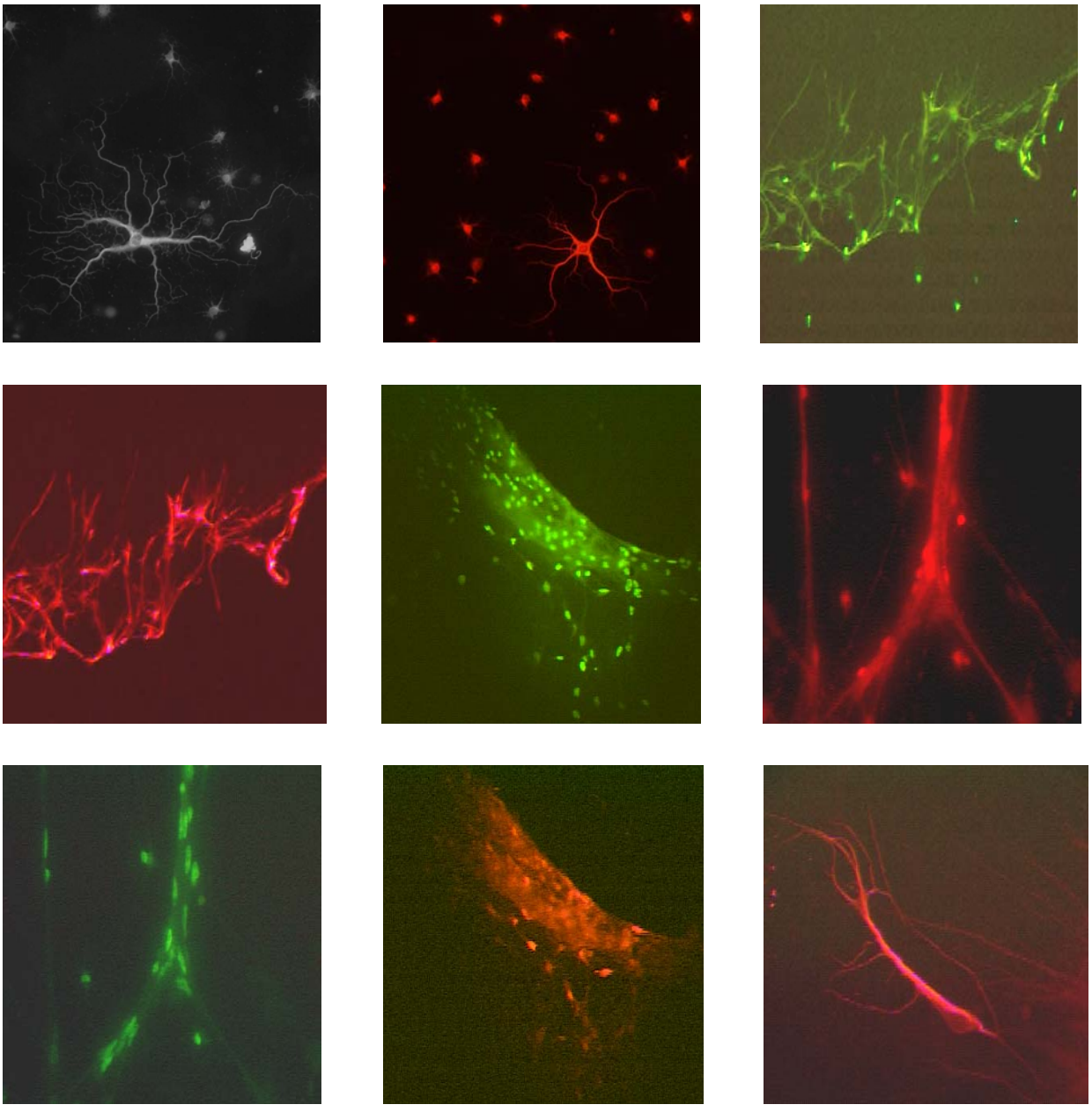
ANNUAL REPORT 2009

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 2009, authorised by it on 25 March 2010.

For, and on behalf of, the Board

Dr Robin Congreve
Chairman

Dr Trevor Scott
Director

25 March 2010

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 9 529 3940

Australian Registered Office
Level 13, 122 Arthur Street,
North Sydney, NSW 2060, Australia
Tel: +61 2 9956 8500

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

Company Secretary
Mr Robert Waring

Auditors
PricewaterhouseCoopers
188 Quay Street
Private Bag 92162
Auckland, New Zealand

Share Registry
Link Market Services Limited
Level 9, 333 Collins Street
Melbourne, Victoria 3000
Australia
Tel: +61 3 9615 9800
Fax: +61 3 9615 9900

Stock Exchange Listing
ASX Limited
ASX Code: NEU

Website
www.neurenpharma.com

Neuren Pharmaceuticals Limited

Chief Executive's Report

2009 proved to be a watershed year for the Company. Putting the termination of the Glypromate® program at the end of 2008 behind us and weathering an almost unprecedented economic recession that took a major toll on the global biopharmaceutical industry, Neuren has emerged as a stronger, more secure company with a clear path forward and the resources necessary to achieve major milestones with the potential to significantly enhance shareholder value. Major accomplishments during 2009 included:

- Approval of an Investigational New Drug (IND) application for a Phase II trial of NNZ-2566 in traumatic brain injury (TBI) by the US Food and Drug Administration (FDA)
- Obtaining Fast Track designation for NNZ-2566 in TBI from the FDA
- Receiving a US$14 million grant award from the US Army for clinical development of NNZ-2566
- Creating a subsidiary (Perseis Therapeutics) to advance our cancer portfolio in a partnership with, and with funding from, the New Zealand Breast Cancer Research Trust
- Strengthening the board of directors with the addition of Dr John Holaday, a seasoned US biotech executive, banker and entrepreneur with significant operating experience in the Australian biotech sector as CEO of QRxPharma
- Establishing a strategic relationship with Cato Research, a US-based global contract research organisation, to manage the Company's clinical development and source additional product pipeline opportunities
- Securing new funding of up to A$7.6 million through private placement and a convertible debt facility which, in combination with the funding from the US Army, is expected to cover all corporate and product development expenses through to the end of 2011.

As we enter 2010, Neuren is one of the few small biopharmaceutical companies in Australia, New Zealand or elsewhere with two active, Phase II clinical development programmes and the financial, human and technical resources already in hand to complete them. This will enable Neuren to focus on execution of the programmes as well as strengthen our position with respect to partnering, which remains a key objective for the Company.

NNZ-2566 Clinical Development Programme

Neuren has been working collaboratively with the US Army to develop NNZ-2566 as a treatment for Traumatic Brain Injury (TBI) since 2004. TBI is an injury to the head caused by an external trauma that can lead to brain cell death, inflammation, oedema, haemorrhage and severe disruption of normal brain function. The medical need for a drug to treat TBI is well recognised. Annually in the US alone, approximately 1.5 million people experience TBI resulting in 700,000 emergency department visits, 300,000 hospital admissions and 52,000 deaths. Direct and indirect costs of TBI have been estimated to exceed US$50 billion per year. TBI is also a major cause of mortality and disability among military personnel. There presently are no drugs approved to treat TBI.

NNZ-2566 is a novel molecule developed by Neuren that has been shown in preclinical studies to prevent the brain cell death that results from a wide variety of injuries and to improve functional and cognitive outcome after injury as a consequence. The efficacy of NNZ-2566 is thought to result from the wide-reaching effects the drug has, including suppression of the inflammatory response to injury, as well as beneficial effects on seizure activity and apoptosis or "programmed cell death". During 2009, Neuren and Army scientists published four peer-reviewed papers reporting on the performance of NNZ-2566 in experimental models of brain injury.

In 2008, the US Army awarded US$4 million in funding to the NNZ-2566 Phase II clinical trial programme through a grant to the Geneva Foundation. A proposal for further funding for the trial was approved in 2009 resulting in a direct grant of US$14.2 million which is intended to cover most of the costs of the Phase II trial as well as further safety testing and chemistry-related studies that would enable progression into a pivotal registration trial if the results of the Phase II are sufficiently positive.

Phase Ia and Ib safety trials were completed in 2007 and manufacturing scale up was successfully completed in 2008. At a pre-IND meeting held with the FDA in mid 2008, the FDA indicated that, with completion of successful Phase II trials with compelling proof of efficacy, only one pivotal trial would be required prior to registration if that trial shows comparable efficacy.

The objective of the Phase II trial is to evaluate the safety and efficacy of NNZ-2566 in patients with moderate to severe brain injury and also to evaluate a number of endpoints in order to determine which will be used in a subsequent pivotal trial. These include neuropsychological function and global outcomes. Psychological problems such as depression, short term memory loss and attention deficit are frequent consequences of TBI and can cause significant disability. In addition, the trial will incorporate biochemical and electroencephalographic (EEG) markers. In preclinical studies conducted by the US Army, NNZ-2566 showed significant effects in attenuating so-called non-convulsive seizures that can occur following TBI and that have been associated with worse clinical outcomes. These seizures are a major focus of the Army's TBI research program.

The Phase II trial is a complex study, seeking to enroll 260 patients and incorporating a large number of endpoints and measurements. The Company has already recruited 12 Level I and II trauma centres across the US to participate in the trial and is presently qualifying an additional 4 sites as backup in the event that enrolment is slower than anticipated. Contracts have been signed and provisional Institutional Review Board (IRB, the US equivalent of an Ethics Committee) approval obtained from most sites and from the US Army. Initiation of patient enrolment was delayed somewhat by the need to develop, test and manufacture a buffer system to avoid irritation at the site of injection and the risk that that could unblind the study. This has now been completed and both the drug product and buffer are available for shipment to the clinical sites. All other technical capabilities necessary to implement the trial — electronic data capture and data

management, site monitoring, EEG recording and centralised interpretation, randomisation and drug supply, and central laboratory support for determination of pharmacokinetic and biomarker levels — have been put in place. Patient enrolment is now expected to begin in April 2010.

Neuren also is pursuing indications for NNZ-2566 beyond TBI. The Company has entered into a Material Transfer Agreement with the Rett Syndrome Research Trust to test NNZ-2566 in a mouse model of Rett Syndrome, one of the most severe of the autism spectrum disorders. Researchers at the Massachusetts Institute of Technology have found that IGF-1(1-3), the naturally occurring parent molecule of NNZ-2566, is effective in reducing symptoms of Rett Syndrome in a mouse model. The Company is also seeking potential partners concerning development of NNZ-2566 for conditions associated with pre-term birth and perinatal asphyxia, neurological damage associated with cancer chemotherapy and other indications.

Motiva™

Motiva™ is being developed to treat neuropsychiatric consequences of stroke and other chronic CNS conditions. The drug is an analogue of the natural neurotransmitter γ-aminobutyric acid, of the 2-oxo-pyrrolidine class of compounds, a class of compound with proven efficacy in neuropsychiatric conditions. Motiva™ has been shown in preclinical studies to improve outcome in models of motivation and depression. In a Phase II trial conducted by Daiichi in the US and Canada, Motiva™ was shown to have a significant effect on apathy in post-stroke patients with depression. Apathy Syndrome occurs in a wide range of neurological conditions such as stroke, TBI, schizophrenia, depression, Parkinson's disease and Alzheimer's disease and is a major contributor to disability and therapeutic failure.

Professor Sergio Starkstein from the University of Western Australia, one of the investigators on the completed Phase II trial and an international expert on psychiatric complications of neurological disease, submitted a grant application to the National Health and Medical Research Council for a study of Motiva™ in post-stroke patients. As announced, that application has been funded and will cover virtually all the costs of the 122-patient study. Patient enrolment is expected to begin in April 2010.

Preclinical Research Programme

In the preclinical pipeline, the Company has obtained proof of concept in a range of in vivo models of peripheral neuropathy, Parkinson's disease and certain cancers. These conditions reflect significant unmet medical need and market opportunity and represent important targets for many larger pharmaceutical and biotechnology companies. Neuren's primary objective for the preclinical portfolio remains leveraging non-dilutive capital and outlicensing or partnering these compounds to extract value without in any way impacting the progress of or resources available to the clinical programmes. Within the preclinical portfolio, priority is being given to the cancer projects and NNZ-2591.

Neuren has assigned its rights to the cancer technologies to a subsidiary, Perseis Therapeutics, which is funded and partly owned by the New Zealand Breast Cancer Research Trust (BCRT). Sufficient capital has been invested by the BCRT to validate the approach, after which Perseis will determine whether to continue development internally or seek a partner for further development and commercialisation.

NNZ-2591 is a novel neuroprotective molecule that has been shown in preclinical studies to improve outcome in models of chronic neurological disorders, including Parkinson's disease and peripheral neuropathy. The drug's oral bioavailability and safety profile suggests that NNZ-2591 is a preclinical development candidate with an excellent likelihood of successful development and a strong asset for partnering.

Financial Review

Grant income increased from $1,660,000 in 2008 to $6,123,000 in 2009 due to the commencement of start-up activities on the NNZ-2566 Phase II trial, with a resulting flow of advance grant funding from the US Army to cover direct costs associated with the trial. In addition, a one-off R&D tax credit of $288,000 was recorded in grant income in the year. Partially offsetting this increase were reductions in contract revenue and out-licensing revenue, both of which were one-off items in 2008.

The level of interest income in 2009 was consistent with lower average cash balances across the year compared with 2008. Neuren had $4,232,000 in cash deposits as at 31 December 2009.

In addition to the increased grant funding, expenditure was significantly reduced throughout the year while the Company sought additional capital to progress its drug portfolio. Research and development costs declined from $10,341,000 in 2008 to $3,969,000 as a result of the Glypromate® trial being undertaken throughout 2008 compared to only start-up activities occurring through 2009 in relation to the NNZ-2566 Phase II trial. An intangibles impairment charge of $7,052,000 was also taken in 2008 following the outcome of the Glypromate® trial compared to only $192,000 in 2009 after rationalisation of the patent portfolio. As a result the Group recorded a small income after tax and minority interest in 2009 of $123,000 compared to an after tax loss of $18,434,000 in 2008.

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 2009, Neuren obtained FDA approval to proceed with its Phase II trial of NNZ-2566 in traumatic brain injury, and a further US$14 million award from the US Army towards the direct costs of the trial. The focus of the year was on start-up activities related to the NNZ-2566 trial and also securing funding for the Company for working capital to support the trial. In this regard, Neuren secured a convertible loan facility for up to A$6.7 million, and in November 2009 drew down the first note of A$550,000. This facility is available until December 2011 and provides minimum monthly funding commencing with A$400,000 in January 2010, followed by ten tranches of A$100,000, and subsequent tranches of A$60,000. Start-up activities for the NNZ-2566 trial are almost complete and patient recruitment is expected to commence in April 2010.

Neuren's operations for 2009 are described further in the Chief Executive's Report on pages 1 and 2.

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

The Group's net loss for the year ended 31 December 2009 was $33,000 (2008: $18,434,000). The detailed financial statements are presented on pages 10 to 27.

The net deficit per share for 2009 was nil (2008: $0.08) based on 271,275,942 weighted average number of shares outstanding (2008: 223,265,642).

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 ING Property Trust Limited which is listed on the New Zealand Stock Exchange.

Dr Douglas Wilson, MB, ChB, PhD (Director and Chief Medical Officer)

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 joined the Neuren Board in November 2009. 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.

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 T R Amos

Mr Amos resigned as a director on 27 March 2009. He was a representative of the Macquarie Technology Funds 1A and 1B, both shareholders of the Company until 13 January 2009. Mr Amos did not have any other 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**	**Other Remuneration**	**Directors' Fees**	**Other Remuneration**
	2009 $'000	**2009 $'000**	**2008 $'000**	**2008 $'000**
Dr Robin Congreve (Chairman) [1]	60	40	60	5
Mr Tom Amos [1 3]	9	-	35	-
Dr John Holaday [1 2]	3	-	-	-
Dr Graeme Howie [1]	35	-	19	-
Dr Trevor Scott [1]	40	20	40	5
Dr Doug Wilson	-	100	-	172

1 Fees and other remuneration were accrued but unpaid at 31 December 2009
2 Appointed as a director 25 November 2009
3 Resigned as a director 27 March 2009

Neuren Pharmaceuticals Limited

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:

	2009 $'000	2008 $'000
$100,000 - $109,999	1	3
$110,000 - $119,999	-	2
$120,000 - $129,999	2	-
$140,000 - $149,999	1	1
$150,000 - $159,999	-	1
$170,000 - $179,999	1	-
$190,000 - $199,999	-	1
$290,000 - $299,999	-	1
$360,000 - $369,999	1	-
$400,000 - $409,999	-	1

Donations
The Company made no donations during the year (2008: nil).

Auditors
PricewaterhouseCoopers are the auditors of the Company. Audit fees in relation to the annual and interim financial statements were $44,000 (2008: $45,500). During 2008 PricewaterhouseCoopers also received $500 (2009: $nil) in relation to other financial advice.

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 and revised in August 2007 (2nd edition) 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 August 2007 best practice recommendations apart from the following recommendations:

Recommendation 2.2: The chair should be an independent director
Dr Congreve is the Chairman of the Board, and was elected as such by the shareholders of the Company. As noted below, Dr Congreve is not "independent" however in accordance with Council's recommendations, Dr Scott, Chairman of the Remuneration and Audit Committee, acts as lead independent director.

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.

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 2009 and early 2010. 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	Non-independent	8
Mr Tom Amos (until 27 March 2009)	Non-executive director	Independent	4
Dr John Holaday (from 25 November 2009)	Non-executive director	Independent	-
Dr Graeme Howie	Non-executive director	Independent	5
Dr Trevor Scott	Non-executive director	Independent	7
Dr Doug Wilson	Chief Medical Officer – Executive director	Non-independent	6

The composition of the Board, its 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. Dr Holaday, Dr Howie and Dr Scott are independent Directors. 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 the various 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) and Dr Congreve. The Board is considering the structure of the Remuneration and Audit Committee following the resignation of Mr Amos on 27 March 2009. 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.

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 the Clinical Development and Ethics Committee to assist the Board in discharging its responsibilities regarding this specific area of risk including ensuring:

- risk management strategies are in place (such as insurance) and that variances in such strategies are reported;
- staff involved in this area are sufficiently experienced and skilled;
- appropriate procedures are in place for the selection and remuneration of external contractors;
- compliance with regulatory obligations including manufacturing, testing, analysis and FDA/Med Safe and Ethics.

Similar risk management procedures are adopted for other areas of identified risk.

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

Both Committees ensure adequate and timely reporting of their findings and activities to the Board.

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 2009

Neuren Pharmaceuticals Limited

Statements of Comprehensive Income
for the year ended 31 December 2009

	Notes	Consolidated 2009 NZ$'000	Consolidated 2008 NZ$'000	Parent 2009 NZ$'000	Parent 2008 NZ$'000
Revenue - interest income		24	155	15	153
- contract revenue		-	323	-	323
- out-licensing revenue		58	736	58	736
		82	1,214	73	1,212
Other income - grants		6,123	1,660	388	1,660
Total revenue and other income		6,205	2,874	461	2,872
Depreciation and amortisation expense		(625)	(1,341)	(164)	(936)
Intangible asset impairment expense		(192)	(7,052)	(192)	(7,052)
Research and development costs		(3,969)	(10,341)	(990)	(10,325)
Patent costs		(515)	(741)	(306)	(615)
Share option compensation expense		(7)	(111)	(7)	(111)
Foreign exchange gain		203	424	204	424
Interest expense		(3)	(31)	(3)	(31)
Corporate and administrative costs		(1,130)	(2,042)	(978)	(2,070)
Loss before income tax	4	(33)	(18,361)	(1,975)	(17,844)
Income tax expense	5	-	(73)	-	(73)
Loss after income tax		(33)	(18,434)	(1,975)	(17,917)
Other comprehensive income (expense), net of tax					
Exchange differences on translation of foreign operations		(1,321)	1,661	-	-
Total comprehensive loss		$ (1,354)	$ (16,773)	$ (1,975)	$ (17,917)
Profit (loss) after income tax attributable to:					
Equity holders of the company		123	(18,434)	(1,975)	(17,917)
Minority interest		(156)	-	-	-
		$ (33)	$ (18,434)	$ (1,975)	$ (17,917)
Total comprehensive loss attributable to:					
Equity holders of the company		(1,198)	(16,773)	(1,975)	(17,917)
Minority interest		(156)	-	-	-
		$ (1,354)	$ (16,773)	$ (1,975)	$ (17,917)
Basic and diluted loss per share	6	$ 0.00	$ (0.08)		

The notes on pages 14 to 27 form part of these financial statements

Neuren Pharmaceuticals Limited

Statements of Financial Position
as at 31 December 2009

	Notes	Consolidated 2009 NZ$'000	Consolidated 2008 NZ$'000	Parent 2009 NZ$'000	Parent 2008 NZ$'000
ASSETS					
Current assets:					
Cash and cash equivalents	7	4,232	1,619	1,695	1,529
Trade and other receivables	8	2,270	195	1,871	963
Income taxes receivable		-	6	-	6
Total current assets		6,502	1,820	3,566	2,498
Non-current assets:					
Property, plant and equipment	9	51	94	47	94
Intangible assets	10	6,153	8,301	933	1,303
Investments in subsidiaries	15	-	-	4,257	4,201
Total non-current assets		6,204	8,395	5,237	5,598
TOTAL ASSETS		$ 12,706	$ 10,215	$ 8,803	$ 8,096
LIABILITIES AND EQUITY					
Current liabilities:					
Trade and other payables	11	3,093	3,481	2,700	3,434
Equipment finance – short term	12	11	15	11	15
Lease incentive – short term		12	12	12	12
Total current liabilities		3,116	3,508	2,723	3,461
Non-current liabilities:					
Equipment finance – long term	12	-	11	-	11
Convertible note	12	490	-	490	-
Lease incentive – long term		22	34	22	34
Total liabilities		3,628	3,553	3,235	3,506
EQUITY					
Share capital	13	69,344	68,768	69,344	68,768
Other reserves		3,601	2,545	3,351	974
Accumulated deficit		(63,692)	(64,651)	(67,127)	(65,152)
Total equity attributable to equity holders		9,253	6,662	5,568	4,590
Minority interest in equity		(175)	-	-	-
Total equity		9,078	6,662	5,568	4,590
TOTAL LIABILITIES AND EQUITY		$ 12,706	$ 10,215	$ 8,803	$ 8,096

The notes on pages 14 to 27 form part of these financial statements

For and on behalf of the Board of Directors who authorised the issue of these financial statements on 25 March 2010.

Dr Robin Congreve
Chairman

Dr Trevor Scott
Director

Neuren Pharmaceuticals Limited

Statements of Changes in Equity
for the year ended 31 December 2009

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 2008	$ 54,023	$ 857	$ (90)	$ (46,217)	$ 8,573	$ -	$ 8,573
Shares issued in rights issue	8,065				8,065		8,065
Shares issued on conversion of notes	3,866				3,866		3,866
Shares issued in private placement	1,190				1,190		1,190
Shares issued in Share Purchase Plan	2,426				2,426		2,426
Share issue costs expensed	(802)				(802)		(802)
Share option grants for services		117			117		117
Comprehensive loss for the year			1,661	(18,434)	(16,773)		(16,773)
Equity as at 31 December 2008	$ 68,768	$ 974	$ 1,571	$ (64,651)	$ 6,662	$ -	$ 6,662
Shares issued in Share Purchase Plan	1,003				1,003		1,003
Shares issued on conversion of notes	190				190		190
Shares issued in private placement	1,903				1,903		1,903
Share issue costs expensed	(150)				(150)		(150)
Share option grants for services	(2,370)	2,377			7		7
Minority interest issued in subsidiary					-	817	817
Gain on issue of minority interest				836	836	(836)	-
Comprehensive loss for the year			(1,321)	123	(1,198)	(156)	(1,354)
Equity as at 31 December 2009	$ 69,344	$ 3,351	$ 250	$ (63,692)	$ 9,253	$ (175)	$ 9,078

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 2008	$ 54,023	$ 857	$ -	$ (47,235)	$ 7,645
Shares issued in rights issue	8,065				8,065
Shares issued on conversion of notes	3,866				3,866
Shares issued in private placement	1,190				1,190
Shares issued in Share Purchase Plan	2,426				2,426
Share issue costs expensed	(802)				(802)
Share option grants for services		117			117
Comprehensive loss for the year				(17,917)	(17,917)
Equity as at 31 December 2008	$ 68,768	$ 974	$ -	$ (65,152)	$ 4,590
Shares issued in Share Purchase Plan	1,003				1,003
Shares issued on conversion of notes	190				190
Shares issued in private placement	1,903				1,903
Share issue costs expensed	(150)				(150)
Share option grants for services	(2,370)	2,377			7
Comprehensive loss for the year				(1,975)	(1,975)
Equity as at 31 December 2009	$ 69,344	$ 3,351	$ -	$ (67,127)	$ 5,568

The notes on pages 14 to 27 form part of these financial statements

Neuren Pharmaceuticals Limited

Statements of Cash Flows
for the year ended 31 December 2009

	Consolidated		Parent	
	2009 NZ$'000	2008 NZ$'000	2009 NZ$'000	2008 NZ$'000
Cash flows from operating activities:				
Receipts from grants	5,835	1,666	100	1,666
Receipts from licensing	107	611	107	611
Interest received	24	155	15	153
GST refunded	111	222	94	222
Interest paid	(3)	(5)	(3)	(5)
Payments to employees	(976)	(2,023)	(851)	(2,023)
Payments to other suppliers	(6,688)	(11,434)	(1,908)	(11,221)
Net cash used in operating activities	(1,590)	(10,808)	(2,446)	(10,597)
Cash flows from investing activities:				
Sale of property, plant and equipment	5	54	5	54
Purchase of property, plant and equipment	(6)	(27)	-	(27)
Advance to subsidiaries	-	-	(867)	(37)
Net cash used in investing activities	(1)	27	(862)	(10)
Cash flows from financing activities:				
Proceeds from the issue of shares	2,906	11,682	2,906	11,682
Proceeds from the issue of convertible notes	680	-	680	-
Proceeds from minority interest	817	-	-	-
Repayment of equipment financing	(15)	(16)	(15)	(16)
Payment of share issue expenses	(149)	(831)	(149)	(831)
Net cash provided from financing activities	4,239	10,835	3,422	10,835
Net (decrease) increase in cash	2,648	54	114	228
Effect of exchange rate changes on cash balances	(35)	274	52	237
Cash at the beginning of the year	1,619	1,291	1,529	1,064
Cash at the end of the year	$ 4,232	$ 1,619	$ 1,695	$ 1,529
Reconciliation with loss after income tax:				
Loss after income tax	$ (33)	$ (18,434)	$ (1,975)	$ (17,917)
Non-cash items requiring adjustment:				
Depreciation of property, plant and equipment	43	88	43	88
Loss (gain) on disposal of property, plant and equipment	(1)	132	(1)	132
Amortisation of intangible assets	582	1,253	121	848
Intangible asset impairment	192	7,052	192	7,052
Share option compensation expense	7	111	7	111
Foreign exchange gain	(203)	(424)	(204)	(424)
Lease incentive amortisation	(12)	(29)	(12)	(29)
Interest on convertible notes	-	26	-	26
Changes in working capital:				
Trade and other receivables	(1,852)	(41)	104	(41)
Trade and other payables	(313)	(542)	(721)	(443)
Net cash used in operating activities	$ (1,590)	$ (10,808)	$ (2,446)	$ (10,597)

The notes on pages 14 to 27 form part of these financial statements

Neuren Pharmaceuticals Limited

Notes to the Financial Statements
for the year ended 31 December 2009

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 25 March 2010.

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 $6,153,000 (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 2009 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 2009 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

The following new standards and amendments are mandatory for the first time in the period beginning 1 January 2009:

- NZ IAS 1 (Revised) Presentation of financial statements. The revised standard requires non-owner changes in equity to be presented separately from owner changes in equity within non-owner changes in equity shown on a performance statement. The financial statements have been prepared under the revised disclosure requirements and a Statement of Comprehensive Income is presented.
- NZ IFRS 8 Operating Segments. The revised standard requires a "management approach" under which operating segment information is presented on the same basis as that used for internal reporting to the chief operating decision-maker, in the Company's case, the Chief Executive Officer. This presentation is consistent with prior year reporting by the Company.

(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 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 item applicable to the Group is:

NZ IFRS 3, Business Combinations (Revised) and NZ IAS 27, Consolidated and Separate Financial Statements (Revised) (mandatory for periods beginning on or after 1 July 2009). Transaction costs associated with any future acquisition are expensed when incurred and no longer included in the cost of acquisition. In addition, any contingent consideration is required to be recognised at fair value at the acquisition date with any subsequent changes taken to the comprehensive income statement. Where less than a 100% interest is acquired, the acquirer can recognise either the entire goodwill or the goodwill proportionate to the interest acquired. This has no impact on the Group's acquisitions to date.

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	2009 New Zealand NZ$'000	2009 United States NZ$'000	2009 Consolidation Adjustments NZ$'000	2009 Total Group NZ$'000
Segment revenue	467	5,738	-	6,205
Segment result before minority interest	(2,535)	2,502	-	(33)
Segment assets	9,156	9,283	(5,733)	12,706
Segment liabilities	3,275	1,829	(1,476)	3,628
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	-	6	-	6
Depreciation and amortisation expense	167	458	-	625
Intangible asset impairment	192	-	-	192
Loss (gain) on disposal of property, plant and equipment	(1)	-	-	(1)

Consolidated	2008 New Zealand NZ$'000	2008 United States NZ$'000	2008 Consolidation Adjustments NZ$'000	2008 Total Group NZ$'000
Segment revenue	2,872	2	-	2,874
Segment result before minority interest	(17,917)	(517)	-	(18,434)
Segment assets	8,096	7,088	(4,969)	10,215
Segment liabilities	3,506	815	(768)	3,553
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	27	-	-	27
Depreciation and amortisation expense	936	405	-	1,341
Intangible asset impairment	7,052	-	-	7,052
Loss (gain) on disposal of property, plant and equipment	132	-	-	132

4. Expenses

	Consolidated		Parent	
	2009 NZ$'000	2008 NZ$'000	2009 NZ$'000	2008 NZ$'000
Loss before income tax includes the following specific expenses:				
Depreciation – property, plant and equipment				
Scientific equipment	24	37	24	37
Computer equipment	5	21	5	21
Fixtures and fittings	11	13	11	13
Leasehold improvements	3	17	3	17
Total depreciation	43	88	43	88
Amortisation – intangible assets				
Intellectual property	581	1,239	120	834
Software	1	14	1	14
Total amortisation	582	1,253	121	848
Remuneration of auditors				
Audit fees	44	46	44	46
Taxation advisory fees	-	1	-	1
Total remuneration of auditors	44	47	44	47
Employee benefits expense				
Salaries and wages	964	1,792	836	1,792
Share option compensation	7	27	7	27
Total employee benefits expense	971	1,819	843	1,819
Directors' fees	147	154	147	154
Lease expense	176	266	176	266

5. Income tax

	Consolidated		Parent	
	2009 NZ$'000	2008 NZ$'000	2009 NZ$'000	2008 NZ$'000
Income tax expense				
Current tax	-	73	-	73
Deferred tax	-	-	-	-
Income tax expense	-	73	-	73
Numerical reconciliation of income tax expense to prima facie tax payable (receivable):				
Loss before income tax	(33)	(18,361)	(1,975)	(17,844)
Tax at rates applicable in the respective countries	277	(5,568)	(593)	(5,353)
Tax effect of amounts not deductible (taxable) in calculating taxable income:				
Share option compensation	2	33	2	33
Grant income	(2,422)	-	(86)	-
Other expenses not deductible for tax purposes	-	30	-	30
	(2,143)	(5,505)	(677)	(5,290)
Foreign jurisdiction withholding tax	-	73	-	73
Under (over) provision in prior years	62	3	2	3
Deferred tax assets not recognised	2,081	5,502	675	5,287
Income tax expense	-	73	-	73

The weighted average applicable tax rate for New Zealand segments is 30% and for United States segments 41% (2008: 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 2008 and 2009, the Company's potentially dilutive ordinary share equivalents (being 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. In the year ended 31 December 2009, the convertible notes set out in note 12 were potentially dilutive ordinary share equivalents for the purposes of the Group earnings per share.

	Consolidated	
	2009	2008
	NZ$'000	NZ$'000
Profit (loss) after income tax attributable to equity holders	123	(18,434)
Weighted average shares outstanding (basic)	271,275,942	223,265,642
Weighted average shares outstanding (diluted)	272,220,539	223,265,642
Basic and diluted loss per share	$0.00	($0.08)

7. Cash and cash equivalents

	Consolidated		Parent	
	2009	2008	2009	2008
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Cash	308	81	134	81
Demand and short-term deposits	3,924	1,538	1,561	1,448
	4,232	1,619	1,695	1,529

8. Trade and other receivables

	Consolidated		Parent	
	2009	2008	2009	2008
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Trade receivables	347	62	330	62
Prepayments	1,923	84	49	84
Sundry receivables and accruals	-	49	-	49
Due from subsidiaries	-	-	1,492	768
	2,270	195	1,871	963

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 2008					
Cost	161	80	108	196	545
Accumulated depreciation	(39)	(59)	(68)	(38)	(204)
Net book value	122	21	40	158	341
Movements in the year ended 31 December 2008					
Opening net book value	122	21	40	158	341
Additions	-	6	11	10	27
Depreciation	(37)	(21)	(13)	(17)	(88)
Disposals	(30)	-	(14)	(142)	(186)
Closing net book value	55	6	24	9	94
As at 31 December 2008					
Cost	109	68	43	10	230
Accumulated depreciation	(54)	(62)	(19)	(1)	(136)
Net book value	55	6	24	9	94
Movements in the year ended 31 December 2009					
Opening net book value	55	6	24	9	94
Additions	-	-	-	-	-
Depreciation	(24)	(5)	(11)	(3)	(43)
Disposals	(4)	-	-	-	(4)
Closing net book value	27	1	13	6	47
As at 31 December 2009					
Cost	100	68	43	10	221
Accumulated depreciation	(73)	(67)	(30)	(4)	(174)
Net book value	27	1	13	6	47

In addition to the Parent's property, plant and equipment noted above, the only property, plant and equipment within the Group was computer equipment with a cost of US$4,000 purchased by the US based subsidiary for use in the upcoming Phase II trial of NNZ-2566. As the trial had not commenced at 31 December 2009 and the computer equipment was not in use, no depreciation was charged in the year ended 31 December 2009 for this equipment.

During the year ended 31 December 2008 the Company moved premises and at that time fully depreciated assets and leasehold improvements related to the previous tenancy that were not sold were written off.

10. Intangible assets

Consolidated	Intellectual Property NZ$'000	Acquired Software NZ$'000	Total NZ$'000
As at 1 January 2008			
Cost	18,137	35	18,172
Accumulated amortisation	(3,386)	(20)	(3,406)
Net book value	14,751	15	14,766
Movements in the year ended 31 December 2008			
Opening net book value	14,751	15	14,766
Amortisation	(1,239)	(14)	(1,253)
Impairment expense	(7,052)	-	(7,052)
Exchange differences	1,840	-	1,840
Closing net book value	8,300	1	8,301
As at 31 December 2008			
Cost	9,522	35	9,557
Accumulated amortisation	(1,222)	(34)	(1,256)
Net book value	8,300	1	8,301
Movements in the year ended 31 December 2009			
Opening net book value	8,300	1	8,301
Amortisation	(581)	(1)	(582)
Impairment expense	(192)	-	(192)
Exchange differences	(1,374)	-	(1,374)
Closing net book value	6,153	-	6,153
As at 31 December 2009			
Cost	7,660	35	7,695
Accumulated amortisation	(1,507)	(35)	(1,542)
Net book value	6,153	-	6,153

Parent	Intellectual Property NZ$'000	Acquired Software NZ$'000	Total NZ$'000
As at 1 January 2008			
Cost	12,511	35	12,546
Accumulated amortisation	(3,323)	(20)	(3,343)
Net book value	9,188	15	9,203
Movements in the year ended 31 December 2008			
Opening net book value	9,188	15	9,203
Amortisation	(834)	(14)	(848)
Impairment expense	(7,052)	-	(7,052)
Closing net book value	1,302	1	1,303
As at 31 December 2008			
Cost	1,932	35	1,967
Accumulated amortisation	(630)	(34)	(664)
Net book value	1,302	1	1,303
Movements in the year ended 31 December 2009			
Opening net book value	1,302	1	1,303
Assigned to subsidiary	(57)	-	(57)
Amortisation	(120)	(1)	(121)
Impairment expense	(192)		(192)
Closing net book value	933	-	933
As at 31 December 2009			
Cost	1,556	35	1,591
Accumulated amortisation	(623)	(35)	(658)
Net book value	933	-	933

The results from the Glypromate® Phase 3 trial were released at the end of 2008, which showed that Glypromate® had no observable effect in a cardiac surgery population and this program was terminated. Accordingly, an impairment charge of $7,052,000 representing the carrying value of intellectual property related to Glypromate® was recorded at 31 December 2008. An intangibles impairment charge of $192,000 was recorded in 2009 following rationalisation of the patent portfolio.

11. Trade and other payables

	Consolidated		Parent	
	2009	2008	2009	2008
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Trade payables	2,443	2,267	2,052	2,258
Accruals	464	1,016	464	978
Employee benefits	186	198	184	198
	3,093	3,481	2,700	3,434

12. Borrowings

Consolidated and Parent		2009 NZ$'000	2008 NZ$'000
Interest bearing			
Equipment finance	- short term	11	15
	- long term	-	11
Total interest bearing debt		11	26
Non-interest bearing			
Convertible note	- long term	490	-

The New Zealand dollar denominated equipment finance is unsecured, has a fixed interest rate of 12.25% and matures in 2010.

The convertible note with a principal amount of A$550,000 was issued on 18 November 2009, and A$150,000 of this was converted at the election of the noteholder to 4,629,630 ordinary shares on 4 December 2009.

The principal terms of the note are:

(a) The Note is unsecured and does not bear interest;

(b) The Note, or part thereof, shall 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) 90% of the lowest of the VWAPs during the twenty (20) business days immediately prior to the date the Investor elects to have the Note, or part thereof, repaid;

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

(d) The noteholder may convert the Note or any part thereof at any time or times prior to 18 November 2011;

(e) The Note does not carry any voting rights at meetings of shareholders of Neuren, and have 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 note was issued provides for convertible note funding of up to A$6.7 million. This facility is available until December 2011 and provides further minimum monthly funding commencing with A$400,000 in January 2010, followed by ten tranches of A$100,000, and subsequent tranches of A$60,000 on the principal terms noted above except that each monthly convertible note shall have a term of approximately one month. 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 expiry or termination of the convertible loan agreement these collateral shares shall be returned to the Company to be cancelled or held as treasury shares, or by mutual agreement of the parties purchased by the convertible loan funding provider.

13. Share capital

Consolidated and Parent	2009 Shares	2008 Shares	2009 NZ$'000	2008 NZ$'000
Issued share capital				
Ordinary shares on issue at beginning of year	257,464,313	144,739,253	68,768	54,023
Shares issued in Rights Issue	-	50,700,000	-	8,065
Shares issued on conversion of notes	4,629,630	24,525,060	190	3,866
Shares issued for cash in private placements	40,306,174	11,875,000	1,903	1,190
Shares issued for cash under Share Purchase Plan	27,176,665	25,625,000	1,003	2,426
Shares issued as collateral and in lieu for capital raising fees	22,670,669	-	-	-
Share issue expenses	-	-	(2,520)	(802)
	352,247,451	257,464,313	69,344	68,768

(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
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 expire 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 expire on 7 February 2011.

On 17 January 2007 the Company granted 1,800,000 options ("January 2007 Options") for future consulting services related to capital raising and financing activities, exercisable on a one-for-one basis at an exercise price of A$0.60 per share. The options expired on 1 December 2008.

Oceania & Eastern Biotech Limited is an investment company associated with interests of Dr Robin Congreve and held 1,528,892 options (the "O&E Options"). The O&E Options' exercise price was a fixed sum of NZ$600,000, exercisable into 1,528,892 ordinary shares (equivalent to NZ$0.392 per share). The options expired on 31 March 2009.

Auckland UniServices Limited ("UniServices") is the commercial research and knowledge transfer company for the University of Auckland and held 1,872,892 options ("UniServices Options"). The UniServices Options' exercise price was a fixed sum of NZ$735,000, exercisable into 1,872,892 ordinary shares (equivalent to NZ$0.392 per share). The UniServices Options expired on 31 March 2009.

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

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.

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 2008	20,637,627	$ 0.419	20,090,961	$ 0.417
Granted	3,750,000	$ 0.263		
Expired	(1,800,000)	$ 0.674		
Outstanding at 31 December 2008	22,587,627	$ 0.373	22,387,627	$ 0.373
Granted	64,935,804	$ 0.056		
Expired	(17,517,627)	$ 0.392		
Outstanding at 31 December 2009	70,005,804	$ 0.074	70,005,804	$ 0.074

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

Consolidated and Parent	2009 Options	2009 Weighted Average Remaining Contract Life (years)	2008 Options	2008 Weighted Average Remaining Contract Life (years)
Exercise price range				
NZ$0.392 – NZ$0.472	1,320,000	0.3	18,837,627	0.3
A$0.15 – A$0.25	3,750,000	1.1	3,750,000	1.9
A$0. 0389 – A$0.0457	64,935,804	3.9	-	-
	70,005,804	3.7	22,587,627	0.6

The weighted average assessed fair value of options granted during the year determined using the Black-Scholes valuation model was NZ$0.036 per option (2008: NZ$0.02). The significant weighted average inputs into the model were a grant date share price of NZ$0.046 (2008: NZ$0.13), volatility of 146% (2008: 69%), dividend yield of 0% (2008: 0%), an expected option life of three years (2008: two years), and an annual risk-free interest rate of 4.23% (2008: 7.07%). 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	
	2009 NZ$'000	2008 NZ$'000	2009 NZ$'000	2008 NZ$'000
Deferred tax asset (liability)				
Amounts recognised in profit or loss				
Provisions and accruals	13	43	13	43
Property, plant and equipment	10	11	10	11
Intangible assets	(1,762)	(1,907)	(5)	564
Tax losses	21,580	20,793	16,130	15,423
	19,841	18,940	16,148	16,041
Unrecognised deferred tax assets	(19,841)	(18,940)	(16,148)	(16,041)
Deferred tax asset (liability)	-	-	-	-
Movements				
Deferred tax asset (liability) at the beginning of the year	-	-	-	-
Credited (charged) to the income statement (note 5)	2,081	5,502	675	5,287
Impact of loss of shareholder continuity	(568)	-	(568)	-
Effects of change in tax rate		-	-	-
Exchange differences	(612)	734		-
Change in unrecognised deferred tax assets	(901)	(6,236)	(107)	(5,287)
Deferred tax asset (liability) at the end of the year	-	-	-	-

Unrecognised tax losses of $7.7 million, $10.4 million, $14.0 million, $17.5 million, and $4.3 million expire in 2013, 2014, 2015, 2016 and 2017 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 2009 NZ$'000	Amount due to (from) Parent 2008 NZ$'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	852	-
Hamilton Pharmaceuticals Inc.	2 April 2004	Clinical research	100%	USA	624	768
Neuren Pharmaceuticals (Australia) Pty Ltd	9 November 2006	Dormant	100%	Australia	-	-
Perseis Therapeutics Limited	25 March 2009	Preclinical research	72.2%	NZ	16	-

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 moved premises in June 2008 and the new 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	2009 NZ$'000	2008 NZ$'000
Not later than one year	148	148
Later than one year and not later than five years	259	407
Later than five years	-	-
	407	555

(b) Finance leases

The following aggregate future non-cancellable minimum lease payments for scientific equipment have been committed to by the Company:

Consolidated and Parent	2009 NZ$'000	2008 NZ$'000
Not later than one year	12	18
Later than one year and not later than five years	-	11
Later than five years		-
	12	29
Future finance charges	(1)	(3)
Total equipment finance (refer note 12)	11	26

(c) Legal claims

The Company has not entered into any collaborative arrangements and has no other significant legal contingencies as at 31 December 2009. During 2008 a claim by a former employee for a share of any proceeds received on commercialisation of a portion of the Neural Regeneration Peptides (NRP) intellectual property was lodged against the Company. The Company disclaimed liability and the claim was withdrawn during 2009.

(d) Capital commitments

The Company is not committed to the purchase of any property, plant or equipment as at 31 December 2009 (2008: 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	2009 NZ$'000	2008 NZ$'000
Directors' fees and other short term benefits	307	341
CEO and management - short-term benefits	1,245	1,107
CEO and management - share-based payments	7	27
	1,252	1,475

In December 2009, in conjunction with a shareholder approved private placement Dr Trevor Scott subscribed for and was allotted 10,604,991 ordinary shares at A$0.0381 per share and 10,604,991 options over ordinary shares with an exercise price of A$0.0457 per option.

(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 2009 the Parent charged Perseis Therapeutics $42,000 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 2009 which require disclosure.

19. Financial instruments and risk management

(a) Categories of financial instruments

	Consolidated		Parent	
	2009	2008	2009	2008
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Financial assets				
Cash and cash equivalents	4,232	1,619	1,695	1,529
Trade receivables	347	111	330	111
Total financial assets (loans and receivables classification)	4,579	1,730	2,025	1,640
Financial liabilities				
Amortised cost:				
Trade and other payables	3,093	3,481	2,700	3,434
Equipment finance	11	26	11	26
Convertible notes	490	-	490	-
Total financial liabilities	3,594	3,507	3,201	3,460

(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 $203,000 is included in results for the year ended 31 December 2009 (2008: $424,000 gain).

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

	Consolidated		Parent	
	2009	2008	2009	2008
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Assets				
US dollars	9,297	7,291	1,495	960
Australian dollars	622	822	622	822
UK pounds	17	25	17	25
Euro	-	49	-	49
Liabilities				
US dollars	1,345	1,582	958	1,535
Australian dollars	993	788	990	788
UK pounds	153	270	153	270
Euro	-	-	-	-

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	
	2009	2008	2009	2008
Decrease (increase) in loss after income tax	NZ$'000	NZ$'000	NZ$'000	NZ$'000
10% strengthening of NZ dollar against:				
US dollar	(139)	168	(49)	52
Australian dollar	31	(3)	31	(3)
UK pound	12	22	12	22
Euro	-	(4)	-	(4)
10% weakening of NZ dollar against:				
US dollar	170	(206)	60	(64)
Australian dollar	(44)	4	(44)	4
UK pound	(15)	(27)	(15)	(27)
Euro	-	5	-	5

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	
	2009	2008	2009	2008
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Financial assets				
Cash and cash equivalents				
New Zealand dollar cash deposits	1,265	468	981	468
New Zealand dollar interest rate	3.4%	5.0%	3.4%	5.0%
US dollar cash deposits	2,079	280	-	190
US dollar interest rate	1.1%	0.0%	-	0.0%
Australian dollar cash deposits	580	790	580	790
Australian dollar interest rate	3.1%	3.2%	3.1%	3.2%

The Company and Group's effective interest rates on financial liabilities are set out in note 12. 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 at fixed or no interest rates, 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 maturities for the Company and Group's interest bearing financial liabilities are set out in note 12. The Company and Group's other 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.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
188 Quay Street
Private Bag 92162
Auckland
New Zealand
Telephone +64 (09) 355 8000
Facsimile +64 (09) 355 8001

Auditors' Report

to the Shareholders of Neuren Pharmaceuticals Limited

We have audited the financial statements on pages 10 to 27. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 December 2009 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 14 to 18.

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.

Directors' Responsibilities
The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 31 December 2009 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities
We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion
An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
(b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors and taxation advisors.

Unqualified Opinion
We have obtained all the information and explanations we have required.

In our opinion:
(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
(b) the financial statements on pages 10 to 27:
  (i) comply with generally accepted accounting practice in New Zealand;
  (ii) comply with International Financial Reporting Standards; and
  (ii) give a true and fair view of the financial position of the Company and Group as at 31 December 2009 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 30 March 2010 and our unqualified opinion is expressed as at that date.

Chartered Accountants, Auckland

Additional Information

Equity Securities Held by Directors as at 15 March 2010

	Interests in Ordinary Shares		Interests in Options	
Director	**Direct**	**Indirect**	**Direct**	**Indirect**
R L Congreve	-	22,386,224	-	-
T D Scott	-	16,694,126	-	10,604,991
J D Wilson	-	135,000	-	-
G B Howie	50,000	55,000	-	-
J Holaday	-	-	-	-

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 15 March 2010 was 899, holding 5,620,586 ordinary shares.

The following information is presented based on share registry information processed up to and including 15 March 2010.

Distribution of Shareholders Analysis of numbers of ordinary shares by size of holding:	**Number of Shareholders**	**Number of Ordinary Shares**
1 – 1,000	136	29,553
1,001 – 5,000	331	1,247,487
5,001 – 10,000	296	2,507,942
10,001 – 100,000	835	34,911,910
100,001 and over	343	327,785,435
	1,941	366,482,327

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	4	20,000
5,001 – 10,000	-	-
10,001 – 100,000	-	-
100,001 and over	8	84,220,680
	12	84,240,680

Substantial Security Holders who have notified the Company as at 15 March 2010 are:	**Number of Ordinary Shares**
CNF Investments LLC and associates	23,188,005
K One W One Limited	19,305,865

There are no securities subject to escrow.

Neuren Pharmaceuticals Limited

Twenty Largest Holders of ordinary shares:	**Number of Ordinary Shares**	**% Holding**
HSBC Custody Nominees (Australia) Limited	24,911,455	6.80
Essex Castle Limited	24,014,208	6.55
ANZ Nominees Limited <Cash Income A/C>	23,926,850	6.53
HSBC Custody Nominees (Australia) Limited <GSCO ECSA>	23,188,005	6.33
K One W One Limited	19,305,865	5.27
Merrill Lynch (Australia) Nominees Pty Limited	11,904,338	3.25
Oceania & Eastern Biotech Limited	10,283,956	2.81
Citicorp Nominees Pty Limited	9,338,927	2.55
J P Morgan Nominees Australia Limited	9,027,096	2.46
Pfizer Inc.	8,081,438	2.21
National Nominees Limited	7,398,559	2.02
Custodial Services Limited <Beneficiaries Holding A/C>	6,140,668	1.68
Centralo Limited	5,962,754	1.63
TAC Murray & Quartet Equities Limited <The Congreve Family A/C>	5,556,366	1.52
Hazardous Investments Limited	4,940,566	1.35
Jarden Custodians Limited	3,181,497	0.87
Mr Roger Scott Alter	3,000,000	0.82
Mr Mladen Marusic	2,903,000	0.79
Mr Robert Albert Boas	2,580,403	0.70
Investment Custodial Services Limited	2,567,403	0.70
	208,213,354	56.81

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 10 to 27 of Neuren and its subsidiaries for the year ended 31 December 2009 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 2009 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 25 March 2010.

On behalf of the Board

Dr Robin Congreve
Chairman

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

Tel: +64 9 529 3940
Email: enquiries@neurenpharma.com

www.neurenpharma.com