

Appendix 4E

Neuren Pharmaceuticals Limited ARBN 111 496 130

Preliminary final report Financial year ended 31 December 2011

The following information is given to the ASX under listing rule 4.3A:

1. Reporting Details

Neuren Pharmaceuticals Limited ARBN 111 496 130 (“Neuren”, the “Company” or the “Group”) presents the following consolidated information for the year ended 31 December 2011 together with comparative results for the year ended 31 December 2010.

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

2. Results for announcement to the market

	Reported 2011 NZ\$'000	Variance to 2010 NZ\$'000	% Change
2.1 Operating Revenue	4,324	(1,850)	(30)%
2.2 Loss after Tax attributable to equity holders	(6,113)	332	5%
2.3 Net Loss attributable to equity holders	(6,113)	332	5%
2.4 Dividends	N/A	N/A	N/A

Operating Revenue

Grant income of NZ\$4,150,000 in 2011 largely related to funding for the NNZ-2566 Phase 2 trial from the US Army to cover direct costs, and the reduction from 2010 matched the reduced direct costs (see discussion of research & development costs below).

Interest income earned of NZ\$174,000 was significantly higher in 2011 compared to 2010 due to the Rights Issue and private placements during 2011 which saw NZ\$11 million of capital raised and resulted in higher average cash balances than in 2010. At 31 December 2011 the Group had cash balances of NZ\$9,844,000 (2010: NZ\$1,956,000).

Loss after Income Tax and Net Loss after Minority Interests

Research & development costs largely relate to NNZ-2566 Phase 2 trial costs denominated in US dollars. The year on year decrease in research & development costs was as a result of a 15% average strengthening of the NZ dollar against the US dollar throughout 2011, and NNZ-2566 drug product manufacturing runs conducted in 2010 which were not repeated in 2011. Other changes included a reduction in patent costs as a result of patent portfolio

rationalisation in prior years, an increase of NZ\$806,000 in the non-cash expense related to the issue of options to employees, directors and consultants during 2011, and foreign exchange gains largely arising on Australian dollar cash balances from the Rights Issue and private placements conducted in the year.

3. Income Statement

	Notes	12 months to 31 December 2011 NZ\$'000	12 months to 31 December 2010 NZ\$'000
Revenue			
Grants		4,150	6,122
Interest income		174	52
Total revenue		4,324	6,174
Expenses			
Depreciation and amortisation expense		(465)	(529)
Loss on disposal of intangible asset		-	(225)
Research and development costs		(7,002)	(9,241)
Patent costs		(192)	(401)
Share option compensation expense		(1,729)	(923)
Foreign exchange gain (loss)		299	(78)
Interest expense		(8)	(2)
Corporate and administrative costs		(1,459)	(1,348)
Total expenses		(10,556)	(12,747)
Loss before income tax	3.1	(6,232)	(6,573)
Income tax		-	-
Net loss after income tax		(6,232)	(6,573)
Other comprehensive income (expense) after tax:			
Exchange differences on translation of foreign operations		(70)	(317)
Total comprehensive loss		\$ (6,302)	\$ (6,890)
Income (loss) after income tax attributable to:			
Equity holders of the company		(6,113)	(6,445)
Minority interest		(119)	(128)
		\$ (6,232)	\$ (6,573)
Total comprehensive loss attributable to:			
Equity holders of the company		(6,183)	(6,762)
Minority interest		(119)	(128)
		\$ (6,302)	\$ (6,890)
Net loss per share:			
Basic and diluted	3.2	(\$0.01)	(\$0.02)
Weighted average number of shares outstanding:			
Basic	3.2	764,781,209	384,916,420
Diluted	3.2	764,781,209	384,916,420

3.1 Loss before income tax

	12 months to 31 December 2011 NZ\$'000	12 months to 31 December 2010 NZ\$'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Scientific equipment	8	19
Computer equipment	6	6
Fixtures and fittings	3	9
Leasehold improvements	2	2
Total depreciation	19	36
Amortisation		
Intellectual property	446	493
Total amortisation	446	493
Remuneration of auditors		
Audit fees	47	51
Taxation and other advisory fees	1	9
Total remuneration of auditors	48	60
Employee benefits expense		
Salaries and wages	1,567	1,324
Share option compensation	833	923
Total employee benefits expense	2,400	2,247
Directors' fees	205	205
Directors' share option compensation	720	-
Lease expense	175	171

3.2 Earnings (loss) per Share

	12 months to 31 December 2011 NZ\$'000	12 months to 31 December 2010 NZ\$'000
Basic and diluted:		
Unadjusted net loss attributable to equity holders	(6,113)	(6,445)
Weighted average shares outstanding (basic)	764,781,209	384,916,420
Weighted average shares outstanding (diluted)	764,781,209	384,916,420
Earnings (loss) per share	(\$0.01)	(\$0.02)

Basic loss per share is based upon the weighted average number of outstanding ordinary shares. For the years ended 31 December 2011 and 2010, the Company's potentially dilutive ordinary share equivalents (being the convertible notes and the options over ordinary shares) 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.

4. Balance Sheet

	Notes	31 December 2011 NZ\$'000	31 December 2010 NZ\$'000
ASSETS			
Current assets:			
Cash and cash equivalents		9,844	1,956
Trade and other receivables		138	430
Total current assets		9,982	2,386
Non-current assets:			
Property, plant and equipment	4.1	6	23
Intangible assets	4.2	4,651	5,121
Total non-current assets		4,657	5,144
TOTAL ASSETS		\$ 14,639	\$ 7,530
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables		2,204	2,257
Convertible notes – short term	4.3	-	598
Lease incentive – short term		9	12
Total current liabilities		2,213	2,867
Non-current liabilities:			
Lease incentive – long term		-	9
Total liabilities		2,213	2,876
Equity:			
Share capital	4.4	80,374	68,858
Other reserves		8,361	5,986
Accumulated deficit	8	(76,250)	(70,137)
Total equity attributable to equity holders		12,485	4,707
Minority interest in equity		(59)	(53)
Total equity		12,426	4,654
TOTAL LIABILITIES AND EQUITY		\$ 14,639	\$ 7,530

4.1 Property, plant and equipment

	Scientific Equipment NZ\$'000	Computer Equipment NZ\$'000	Fixtures & Fittings NZ\$'000	Leasehold Improvements NZ\$'000	Total NZ\$'000
As at 1 January 2010					
Cost	100	72	43	10	225
Accumulated depreciation	(73)	(67)	(30)	(4)	(174)
Net book value	27	5	13	6	51
Movements in the year ended 31 December 2010					
Opening net book value	27	5	13	6	51
Additions	-	7	-	-	7
Depreciation	(19)	(6)	(9)	(2)	(36)
Disposals	-	-	-	-	-
Exchange differences	-	1	-	-	1
Closing net book value	8	7	4	4	23
As at 31 December 2010					
Cost	100	80	43	10	233
Accumulated depreciation	(92)	(73)	(39)	(6)	(210)
Net book value	8	7	4	4	23
Movements in the year ended 31 December 2011					
Opening net book value	8	7	4	4	23
Additions	-	2	-	-	2
Depreciation	(8)	(6)	(3)	(2)	(19)
Disposals	-	-	-	-	-
Exchange differences	-	-	-	-	-
Closing net book value	-	3	1	2	6
As at 31 December 2011					
Cost	100	82	43	10	235
Accumulated depreciation	(100)	(79)	(42)	(8)	(229)
Net book value	\$ -	\$ 3	\$ 1	\$ 2	\$ 6

4.2 Intangible Assets

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

4.3 Convertible Notes

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

The principal terms of the notes were:

- (a) They are unsecured and do not bear interest unless the Company elected to repay them in cash;
- (b) The notes, or part thereof, convert to new ordinary shares in the Company determined by dividing the principal amount, or part thereof to be converted, by the lesser of:
 - (i) 130% of the average of the Volume Weighted Average Prices per share of the Company's ordinary shares quoted on the ASX ("VWAPs") for the twenty (20) business days immediately prior to 18 November 2009; and
 - (ii) between 85 and 90% of the lowest of the VWAPs during the twenty (20) business days immediately prior to the conversion;
- (c) The ordinary shares issued upon conversion of a note will rank equally in all respects with the then existing ordinary shares on issue;

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

The convertible loan agreement under which the above convertible notes were issued provided for convertible note funding until December 2011. At 31 December 2010 a minimum of A\$720,000 remained available for draw down in monthly tranches of A\$60,000. Pursuant to the convertible loan agreement, in 2009 the Company issued for no value 13,000,000 ordinary shares as collateral for funding under the agreement.

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

4.4 Share Capital

	31 December 2011 000's	31 December 2010 000's
Issued share capital		
<i>Ordinary shares - number of shares</i>		
Balance at beginning of year	424,765	352,247
Shares issued in private placements	384,092	-
Shares issued in rights issue	293,484	-
Shares issued on conversion of notes	39,274	72,518
Shares issued on option exercise	14,249	-
Ordinary shares issued as at end of year	1,155,864	424,765
	31 December 2011 NZ\$'000	31 December 2010 NZ\$'000
Issued share capital		
<i>Ordinary shares - value</i>		
Balance at beginning of year	68,858	69,344
Shares issued in private placements	6,330	-
Shares issued in rights issue	4,774	-
Shares issued on conversion of notes	928	1,759
Shares issued on option exercise	311	-
Share issue expenses ⁽¹⁾	(827)	(2,245)
Total issued share capital	\$ 80,374	\$ 68,858

(1) Share issue expenses includes the notional cost of options with an assessed fair value of \$716,000 (2010: \$1,779,000) issued in conjunction with capital raising activities.

5. Statement of Cash Flows

	12 months to 31 December 2011 NZ\$'000	12 months to 31 December 2010 NZ\$'000
Cash flows in operating activities:		
Receipts from grants	4,150	6,410
Interest received	174	52
Net GST received (paid)	57	138
Interest paid	-	(2)
Payments to suppliers	(6,948)	(9,129)
Payments to employees	(1,545)	(1,254)
Net cash used in operating activities	(4,112)	(3,785)
Cash flows in investing activities:		
Sale of property, plant and equipment	-	-
Purchase of property, plant and equipment	(2)	(7)
Net cash used in investing activities	(2)	(7)
Cash flows in financing activities:		
Proceeds from the issue of shares	11,104	-
Proceeds from the exercise of options	311	-
Proceeds from the issue of convertible notes	316	1,835
Proceeds from minority interest	113	250
Repayment of equipment financing	-	(11)
Payment of share issue costs	(113)	(478)
Cash provided from financing activities	11,731	1,596
Net (decrease) increase in cash	7,617	(2,196)
Effect of exchange rate changes on cash balances	271	(80)
Cash at the beginning of the year	1,956	4,232
Cash at end of the year	\$ 9,844	\$ 1,956
Reconciliation with loss after income tax:		
Loss after income tax	(6,232)	(6,573)
<i>Non-cash items requiring adjustment:</i>		
Depreciation of property, plant and equipment	19	36
Amortisation of intangible assets	446	493
Convertible note interest	8	
Loss on disposal of intangible assets	-	225
Share option compensation expense	1,729	923
Foreign exchange (gain) loss	(299)	78
Lease incentive amortisation	(12)	(12)
<i>Changes in working capital:</i>		
Trade and other receivables	282	1,817
Trade and other payables	(53)	(772)
Net cash used in operating activities	\$ (4,112)	\$ (3,785)

6. Dividends

No ordinary share dividend or distribution payments were made in the financial year. The directors do not recommend the payment of any dividends with respect to the financial year.

7. Dividend or Distribution Reinvestment Plan

Not applicable.

8. Statement of Retained Earnings

	12 months to 31 December 2011 NZ\$'000	12 months to 31 December 2010 NZ\$'000
Net income (loss) for the year	(6,113)	(6,445)
Retained earnings at the beginning of the year	(70,137)	(63,692)
Retained earnings at the end of the year	\$ (76,250)	\$ (70,137)

9. Net Tangible Assets per Security

	31 December 2011 NZ\$	31 December 2010 NZ\$
Net tangible assets per security	\$0.01	\$0.00

10. Control Over Entities

Investment in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

Name of entity	Date of incorporation	Principal activities	Interest held	Domicile
AgVentures Limited	7 October 2003	Dormant	100%	New Zealand
NeuroendocrinZ Limited	10 July 2002	Dormant	100%	New Zealand
Neuren Pharmaceuticals Inc.	20 August 2002	US based office	100%	USA
Hamilton Pharmaceuticals Inc.	2 April 2004	Clinical research	100%	USA
Neuren Pharmaceuticals (Australia) Pty Ltd	9 November 2006	Dormant	100%	Australia
Perseis Therapeutics Limited	25 March 2009	Preclinical research	72.2%	New Zealand

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

11. Associates and Joint Venture Entities

Not applicable.

12. Significant Information

None.

13. Accounting Standards

The financial statements of the Company are prepared in conformity with generally accepted accounting practice and accounting standards in New Zealand.

14. Commentary on the Results

The earnings per share is presented in note 3.2 above and no ordinary share dividends have been declared in the year.

A commentary on the Company's results for the year ended 31 December 2011 is presented above in note 2.

15. Audit Status

This report is based upon financial statements for the year ended 31 December 2011 which are in the process of being audited. The results for the year ended 31 December 2010 as presented in this report have been extracted from audited financial statements.

The Company's auditor is PricewaterhouseCoopers, Auckland and no disputes have arisen.