

# Appendix 4E

## Neuren Pharmaceuticals Limited ARBN 111 496 130

### Preliminary final report Financial year ended 31 December 2010

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

#### 1. Reporting Details

Neuren Pharmaceuticals Limited ARBN 111 496 130 (“Neuren” or the “Company”) presents the following consolidated information for the year ended 31 December 2010 together with comparative results for the year ended 31 December 2009.

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

#### 2. Results for announcement to the market

	Reported 2010 NZ\$'000	Variance to 2009 NZ\$'000	% Change
2.1 Operating Revenue	6,174	(31)	(0)%
2.2 Loss after Tax attributable to equity holders	(6,445)	(6,568)	(5,340)%
2.3 Net Loss attributable to equity holders	(6,445)	(6,568)	(5,340)%
2.4 Dividends	N/A	N/A	N/A

#### Operating Revenue

Grant income of \$6,122,000 in 2010 was virtually unchanged from that received in 2009, and apart from a one-off R&D tax credit of \$288,000 in 2009, related to funding for the NNZ-2566 Phase 2 trial from the US Army to cover direct costs associated with the trial in both years. The Company periodically requests and receives in advance funding instalments to meet trial costs expected to arise within the next one or two months, and this process will continue through the course of the Phase 2 trial.

The increased level of interest income in 2010 was due to higher average cash balances across the year compared with 2009, due largely to the ongoing receipt of grant funding for the NNZ-2566 Phase 2 trial. Neuren had \$1,956,000 in cash deposits as at 31 December 2010.

#### Loss after Income Tax and Net Loss after Minority Interests

With the commencement of start-up activities for the NNZ-2566 Phase 2 trial in mid-2009 and ongoing grant funding from the US Army, research and development activity costs

increased from \$3,969,000 in 2009 to \$9,241,000 in 2010 as the Phase 2 trial moved to being fully underway. This and the non-cash expense of \$923,000 for options issued under the employee share option plan largely accounted for the change from a small income after tax and minority interest in 2009 of \$123,000 to an after tax and minority interests loss of \$6,445,000 in 2010.

### 3. Income Statement

	Notes	12 months to 31 December 2010 NZ\$'000	12 months to 31 December 2009 NZ\$'000
<b>Revenue</b>			
Grants		6,122	6,123
Contract research revenues		-	-
Out-licensing revenue		-	58
Interest income		52	24
<b>Total revenue</b>		<b>6,174</b>	<b>6,205</b>
<b>Expenses</b>			
Depreciation and amortisation expense		(529)	(625)
Intangible asset impairment expense		-	(192)
Loss on disposal of intangible asset		(225)	-
Research and development costs		(9,241)	(3,969)
Patent costs		(401)	(515)
Share option compensation expense		(923)	(7)
Foreign exchange gain (loss)		(78)	203
Interest expense		(2)	(3)
Corporate and administrative costs		(1,348)	(1,130)
<b>Total expenses</b>		<b>(12,747)</b>	<b>(6,238)</b>
<b>Loss before income tax</b>	3.1	<b>(6,573)</b>	<b>(33)</b>
Income tax		-	-
<b>Net loss after income tax</b>		<b>(6,573)</b>	<b>(33)</b>
<b>Other comprehensive income (expense) after tax:</b>			
Exchange differences on translation of foreign operations		(317)	(1,321)
<b>Total comprehensive loss</b>		<b>\$ (6,890)</b>	<b>\$ (1,354)</b>
<b>Income (loss) after income tax attributable to:</b>			
Equity holders of the company		(6,445)	123
Minority interest		(128)	(156)
		<b>\$ (6,573)</b>	<b>\$ (33)</b>
<b>Total comprehensive loss attributable to:</b>			
Equity holders of the company		(6,762)	(1,198)
Minority interest		(128)	(156)
		<b>\$ (6,890)</b>	<b>\$ (1,354)</b>
<b>Net loss per share:</b>			
Basic and diluted	3.2	(\$0.02)	\$0.00
<b>Weighted average number of shares outstanding:</b>			
Basic	3.2	384,916,420	271,275,942
Diluted	3.2	384,916,420	272,220,539

3.1 Loss before income tax

	12 months to 31 December 2010 NZ\$'000	12 months to 31 December 2009 NZ\$'000
<b>Loss before income tax includes the following specific expenses:</b>		
<b>Depreciation</b>		
Scientific equipment	19	24
Computer equipment	6	5
Fixtures and fittings	9	11
Leasehold improvements	2	3
Total depreciation	<u>36</u>	<u>43</u>
<b>Amortisation</b>		
Intellectual property	493	581
Software	-	1
Total amortisation	<u>493</u>	<u>582</u>
<b>Remuneration of auditors</b>		
Audit fees	51	44
Taxation and other advisory fees	9	-
Total remuneration of auditors	<u>60</u>	<u>44</u>
<b>Employee benefits expense</b>		
Salaries and wages	1,324	964
Share option compensation	923	7
Total employee benefits expense	<u>2,247</u>	<u>971</u>
<b>Directors' fees</b>	205	147
<b>Lease expense</b>	171	176

3.2 Earnings (loss) per Share

	12 months to 31 December 2010 NZ\$'000	12 months to 31 December 2009 NZ\$'000
<b>Basic and diluted:</b>		
Unadjusted net loss attributable to equity holders	(6,445)	123
Weighted average shares outstanding (basic)	384,916,420	271,275,942
Weighted average shares outstanding (diluted)	<u>384,916,420</u>	<u>272,220,539</u>
<b>Earnings (loss) per share</b>	<u>(\$0.02)</u>	<u>\$0.00</u>

Basic loss per share is based upon the weighted average number of outstanding ordinary shares. For the year ended 31 December 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. In the year ended 31 December 2009, the convertible notes were potentially dilutive ordinary share equivalents for the purposes of the Group earnings per share.

4. Balance Sheet

	Notes	31 December 2010 NZ\$'000	31 December 2009 NZ\$'000
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents		1,956	4,232
Trade and other receivables		430	2,270
Income taxes receivable		-	-
Total current assets		2,386	6,502
<b>Non-current assets:</b>			
Property, plant and equipment	4.1	23	51
Intangible assets	4.2	5,121	6,153
Total non-current assets		5,144	6,204
<b>TOTAL ASSETS</b>		<b>\$ 7,530</b>	<b>\$ 12,706</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Trade and other payables		2,257	3,093
Convertible notes – short term	4.4	598	-
Equipment finance – short term	4.3	-	11
Lease incentive – short term		12	12
Total current liabilities		2,867	3,116
<b>Non-current liabilities:</b>			
Convertible note – long term	4.4	-	490
Lease incentive – long term		9	22
Total liabilities		2,876	3,628
<b>Equity:</b>			
Share capital	4.5	68,858	69,344
Other reserves		5,986	3,601
Accumulated deficit	8	(70,137)	(63,692)
Total equity attributable to equity holders		4,707	9,253
Minority interest in equity		(53)	(175)
Total equity		4,654	9,078
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 7,530</b>	<b>\$ 12,706</b>

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
<b>As at 1 January 2009</b>					
Cost	109	68	43	10	230
Accumulated depreciation	(54)	(62)	(19)	(1)	(136)
Net book value	55	6	24	9	94
<b>Movements in the year ended 31 December 2009</b>					
Opening net book value	55	6	24	9	94
Additions	-	6	-	-	6
Depreciation	(24)	(5)	(11)	(3)	(43)
Disposals	(4)	-	-	-	(4)
Exchange differences	-	(2)	-	-	(2)
Closing net book value	27	5	13	6	51
<b>As at 31 December 2009</b>					
Cost	100	72	43	10	225
Accumulated depreciation	(73)	(67)	(30)	(4)	(174)
Net book value	27	5	13	6	51
<b>Movements in the year ended 31 December 2010</b>					
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
<b>As at 31 December 2010</b>					
Cost	100	80	43	10	233
Accumulated depreciation	(92)	(73)	(39)	(6)	(210)
Net book value	\$ 8	\$ 7	\$ 4	\$ 4	\$ 23

## 4.2 Intangible Assets

	Intellectual Property NZ\$'000	Acquired Software NZ\$'000	Total NZ\$'000
<b>As at 1 January 2009</b>			
Cost	9,522	35	9,557
Accumulated amortisation	(1,222)	(34)	(1,256)
Net book value	8,300	1	8,301
<b>Movements in the year ended 31 December 2009</b>			
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
<b>As at 31 December 2009</b>			
Cost	7,660	35	7,695
Accumulated amortisation	(1,507)	(35)	(1,542)
Net book value	6,153	-	6,153
<b>Movements in the year ended 31 December 2010</b>			
Opening net book value	6,153	-	6,153
Amortisation	(493)	-	(493)
Loss on disposal	(225)	-	(225)
Exchange differences	(314)	-	(314)
Closing net book value	5,121	-	5,121
<b>As at 31 December 2010</b>			
Cost	6,873	35	6,908
Accumulated amortisation	(1,752)	(35)	(1,787)
Net book value	\$ 5,121	\$ -	\$ 5,121

An intangibles impairment charge of \$192,000 was recorded in 2009 following rationalisation of the patent portfolio.

## 4.3 Interest bearing debt

	31 December 2010 NZ\$'000	31 December 2009 NZ\$'000
<i>Unsecured</i>		
Equipment finance – short term	-	11
– long term	-	-
<b>Total interest bearing debt</b>	\$ -	\$ 11

The New Zealand dollar denominated equipment finance had a fixed interest rate of 12.25% and matured in 2010.

## 4.4 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 are:

- (a) They are unsecured and do not bear interest;
- (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 do 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 notes were issued provides 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 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.

#### 4.5 Share Capital

	31 December 2010 000's	31 December 2009 000's
<b>Issued share capital</b>		
<i>Ordinary shares - number of shares</i>		
Balance at beginning of year	352,247	257,464
Shares issued for cash during the year	-	67,483
Shares issued on conversion of notes	72,518	4,630
Shares issued as security and in lieu for capital raising fees	-	22,670
<b>Ordinary shares issued as at end of year</b>	<b>424,765</b>	<b>352,247</b>
	31 December 2010 NZ\$'000	31 December 2009 NZ\$'000
<b>Issued share capital</b>		
<i>Ordinary shares - value</i>		
Balance at beginning of year	69,344	68,768
Shares issued for cash during the year	-	2,906
Shares issued on conversion of notes	1,759	190
Shares issued as security and in lieu for capital raising fees	-	303
Share issue expenses <sup>(1)</sup>	(2,245)	(2,823)
<b>Total issued share capital</b>	<b>\$ 68,858</b>	<b>\$ 69,344</b>

(1) In 2010, share issue expenses includes the notional cost of options with an assessed fair value of \$1,779,000 (2009: \$2,370,000) issued in conjunction with capital raising activities.

5. Statement of Cash Flows

	12 months to 31 December 2010 NZ\$'000	12 months to 31 December 2009 NZ\$'000
<b>Cash flows in operating activities:</b>		
Receipts from grants	6,410	5,835
Receipts from licensing	-	107
Interest received	52	24
Net GST received (paid)	138	111
Interest paid	(2)	(3)
Payments to suppliers	(9,129)	(6,688)
Payments to employees	(1,254)	(976)
<b>Net cash used in operating activities</b>	<b>(3,785)</b>	<b>(1,590)</b>
<b>Cash flows in investing activities:</b>		
Sale of property, plant and equipment	-	5
Purchase of property, plant and equipment	(7)	(6)
<b>Net cash used in investing activities</b>	<b>(7)</b>	<b>(1)</b>
<b>Cash flows in financing activities:</b>		
Proceeds from the issue of convertible notes	1,835	680
Proceeds from the issue of shares	-	2,906
Proceeds from minority interest	250	817
Repayment of equipment financing	(11)	(15)
Payment of share issue costs	(478)	(149)
<b>Cash provided from financing activities</b>	<b>1,596</b>	<b>4,239</b>
Net (decrease) increase in cash	(2,196)	2,648
Effect of exchange rate changes on cash balances	(80)	(35)
Cash at the beginning of the year	4,232	1,619
<b>Cash at end of the year</b>	<b>\$ 1,956</b>	<b>\$ 4,232</b>
<b>Reconciliation with loss after income tax:</b>		
Loss after income tax	(6,573)	(33)
<i>Non-cash items requiring adjustment:</i>		
Depreciation of property, plant and equipment	36	43
Loss on disposal of property, plant and equipment	-	(1)
Amortisation of intangible assets	493	582
Loss on disposal of intangible assets	225	-
Intangible asset impairment	-	192
Share option compensation expense	923	7
Foreign exchange loss (gain)	78	(203)
Lease incentive amortisation	(12)	(12)
<i>Changes in working capital:</i>		
Trade and other receivables	1,817	(1,852)
Trade and other payables	(772)	(313)
<b>Net cash used in operating activities</b>	<b>\$ (3,785)</b>	<b>\$ (1,590)</b>



**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 2010 NZ\$'000	12 months to 31 December 2009 NZ\$'000
Net income (loss) for the year	(6,445)	123
Gain on issue of minority interest	-	836
Retained earnings at the beginning of the year	(63,692)	(64,651)
Retained earnings at the end of the year	\$ (70,137)	\$ (63,692)

**9. Net Tangible Assets per Security**

	31 December 2010 NZ\$	31 December 2009 NZ\$
Net tangible assets per security	\$0.00	\$0.01

**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 2010 is presented above in note 2.

**15. Audit Status**

This report is based upon financial statements for the year ended 31 December 2010 which are in the process of being audited. The results for the year ended 31 December 2009 as presented in this report have been extracted from audited financial statements.

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