

Appendix 4E

Neuren Pharmaceuticals Limited ARBN 111 496 130

Preliminary final report Financial year ended 31 December 2009

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 2009 together with comparative results for the year ended 31 December 2008.

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

2. Results for announcement to the market

	Reported 2009 NZ\$'000	Variance to 2008 NZ\$'000	% Change
2.1 Operating Revenue	6,205	3,331	116%
2.2 Income (loss after Tax) attributable to equity holders	123	18,557	101%
2.3 Net Loss attributable to equity holders	123	18,557	101%
2.4 Dividends	N/A	N/A	N/A

Operating Revenue

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 NNZ2566 Phase 2 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.

Loss after Income Tax and Net Income after Minority Interests

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 NNZ2566 Phase 2 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.

3. Income Statement

	Notes	12 months to 31 December 2009 NZ\$'000	12 months to 31 December 2008 NZ\$'000
Revenue			
Grants		6,123	1,660
Contract research revenues		-	323
Out-licensing revenue		58	736
Interest income		24	155
Total revenue		6,205	2,874
Expenses			
Depreciation and amortisation expense		(625)	(1,341)
Intangible asset impairment expense		(192)	(7,052)
Research and development costs		(3,969)	(10,341)
Patent costs		(515)	(741)
Share option compensation expense		(7)	(111)
Foreign exchange gain (loss)		203	424
Interest expense		(3)	(31)
Corporate and administrative costs		(1,130)	(2,042)
Total expenses		(6,238)	(21,235)
Loss before income tax	3.1	(33)	(18,361)
Income tax		-	(73)
Net loss after income tax		(33)	(18,434)
Other comprehensive income (expense) after tax:			
Exchange differences on translation of foreign operations		(1,321)	1,661
Total comprehensive loss		\$ (1,354)	\$ (16,773)
Income (loss) after income tax attributable to:			
Equity holders of the company		123	(18,434)
Minority interest		(156)	-
		\$ (33)	\$ (18,434)
Total comprehensive loss attributable to:			
Equity holders of the company		(1,198)	(16,773)
Minority interest		(156)	-
		\$ (1,354)	\$ (16,773)

Net loss per share:			
Basic and diluted	3.2	\$0.00	(\$0.08)
Weighted average number of shares outstanding:			
Basic	3.2	271,275,942	223,265,642
Diluted	3.2	272,220,539	223,265,642

3.1 Loss before income tax

		12 months to 31 December 2009 NZ\$'000	12 months to 31 December 2008 NZ\$'000
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Loss before income tax includes the following specific expenses:

Depreciation

Scientific equipment		24	37
Computer equipment		5	21
Fixtures and fittings		11	13
Leasehold improvements		3	17
Total depreciation		<u>43</u>	<u>88</u>

Amortisation

Intellectual property		581	1,239
Software		1	14
Total amortisation		<u>582</u>	<u>1,253</u>

Remuneration of auditors

Audit fees		35	46
Taxation advisory fees		-	1
Total remuneration of auditors		<u>35</u>	<u>47</u>

Employee benefits expense

Salaries and wages		964	1,792
Share option compensation		7	27
Total employee benefits expense		<u>971</u>	<u>1,819</u>

Directors' fees

		147	154
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Lease expense

		176	266
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3.2 Earnings (loss) per Share

		12 months to 31 December 2009 NZ\$'000	12 months to 31 December 2008 NZ\$'000
Basic and diluted:			
Unadjusted net loss attributable to equity holders		123	(18,434)
Weighted average shares outstanding (basic)		271,275,942	223,265,642
Weighted average shares outstanding (diluted)		<u>272,220,539</u>	<u>223,265,642</u>
Earnings (loss) per share		<u>\$0.00</u>	<u>(\$0.08)</u>

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 outstanding options over ordinary shares (being potentially dilutive ordinary share equivalents) 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 note was a potentially dilutive ordinary share equivalent for the purposes of the Group earnings per share.

4. Balance Sheet

	Notes	31 December 2009 NZ\$'000	31 December 2008 NZ\$'000
ASSETS			
Current assets:			
Cash and cash equivalents		4,232	1,619
Trade and other receivables		2,270	195
Income taxes receivable		-	6
Total current assets		6,502	1,820
Non-current assets:			
Property, plant and equipment	4.1	51	94
Intangible assets	4.2	6,153	8,301
Total non-current assets		6,204	8,395
TOTAL ASSETS		\$ 12,706	\$ 10,215
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables		3,093	3,481
Equipment finance – short term	4.3	11	15
Lease incentive – short term		12	12
Total current liabilities		3,116	3,508
Non-current liabilities:			
Equipment finance – long term	4.3	-	11
Lease incentive – long term		22	34
Total liabilities		3,138	3,553
Equity:			
Share capital	4.4	69,344	68,768
Convertible notes	4.5	490	-
Other reserves		3,601	2,545
Accumulated deficit	8	(63,692)	(64,651)
Total equity attributable to equity holders		9,743	6,662
Minority interest in equity		(175)	-
Total equity		9,568	6,662
TOTAL LIABILITIES AND EQUITY		\$ 12,706	\$ 10,215

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 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	-	6	-	-	6
Depreciation	(24)	(5)	(11)	(3)	(43)
Disposals	(4)	-	-	-	(4)
Exchange differences	-	(2)	-	-	(2)
Closing net book value	27	5	13	6	51
As at 31 December 2009					
Cost	100	72	43	10	225
Accumulated depreciation	(73)	(67)	(30)	(4)	(174)
Net book value	\$ 27	\$ 5	\$ 13	\$ 6	\$ 51

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.

4.2 Intangible Assets

	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
Additions	-	-	-
Addition through acquisition of subsidiary	(1,239)	(14)	(1,253)
Amortisation	(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
Additions	-	-	-
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

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.

4.3 Interest bearing debt

	31 December 2009 NZ\$'000	31 December 2008 NZ\$'000
<i>Unsecured</i>		
Equipment finance – short term	11	15
– long term	-	11
Total interest bearing debt	\$ 11	\$ 26

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

4.4 Share Capital

	31 December 2009 000's	31 December 2008 000's
Issued share capital		
<i>Ordinary shares - number of shares</i>		
Balance at beginning of year	257,464	144,739
Shares issued for cash during the year	67,483	88,200
Shares issued on conversion of notes	4,630	24,525
Shares issued as security and in lieu for capital raising fees	22,670	-
Ordinary shares issued as at end of year	352,247	257,464
	31 December 2009 NZ\$'000	31 December 2008 NZ\$'000
Issued share capital		
<i>Ordinary shares - value</i>		
Balance at beginning of year	68,768	54,023
Shares issued for cash during the year	2,906	11,681
Shares issued on conversion of notes	190	3,866
Shares issued as security and in lieu for capital raising fees	303	-
Share issue expenses ⁽¹⁾	(2,823)	(802)
Total issued share capital	\$ 69,344	\$ 68,768

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

4.5 Convertible Note

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.

5. Statement of Cash Flows

	12 months to 31 December 2009 NZ\$'000	12 months to 31 December 2008 NZ\$'000
Cash flows in operating activities:		
Receipts from grants	5,835	1,666
Receipts from licensing	107	611
Interest received	24	155
Net GST received (paid)	111	222
Interest paid	(3)	(5)
Payments to suppliers	(6,688)	(11,434)
Payments to employees	(976)	(2,023)
Net cash used in operating activities	(1,590)	(10,808)
Cash flows in investing activities:		
Sale of property, plant and equipment	5	54
Purchase of property, plant and equipment	(6)	(27)
Net cash used in investing activities	(1)	27
Cash flows in financing activities:		
Proceeds from the issue of convertible notes	680	-
Proceeds from the issue of shares	2,906	11,682
Proceeds from minority interest	817	-
Repayment of equipment financing	(15)	(16)
Payment of share issue costs	(149)	(831)
Cash provided from financing activities	4,239	10,835
Net (decrease) increase in cash	2,648	54
Effect of exchange rate changes on cash balances	(35)	274
Cash at the beginning of the year	1,619	1,291
Cash at end of the year	\$ 4,232	\$ 1,619
Reconciliation with loss after income tax:		
Loss after income tax	(33)	(18,434)
<i>Non-cash items requiring adjustment:</i>		
Depreciation of property, plant and equipment	43	88
Loss on disposal of property, plant and equipment	(1)	132
Amortisation of intangible assets	582	1,253
Intangible asset impairment	192	7,052
Share option compensation expense	7	111
Foreign exchange loss (gain)	(203)	(424)
Lease incentive amortisation	(12)	(29)
Interest on convertible notes	-	26
<i>Changes in working capital:</i>		
Trade and other receivables	(1,852)	(41)
Trade and other payables	(313)	(542)
Net cash used in operating activities	\$ (1,590)	\$ (10,808)

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 2009 NZ\$'000	12 months to 31 December 2008 NZ\$'000
Net income (loss) for the year	123	(18,434)
Gain on issue of minority interest	836	-
Retained earnings at the beginning of the year	(64,651)	(46,217)
Retained earnings at the end of the year	\$ (63,692)	\$ (64,651)

9. Net Tangible Assets per Security

	31 December 2009 NZ\$	31 December 2008 NZ\$
Net tangible assets per security	\$0.01	(\$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

As previously announced, Neuren has 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.

In addition, Neuren has invoiced for and received approximately US\$4 million of the additional US\$14 million award from the US Army towards the direct costs of the upcoming Phase 2 trial of NNZ-2566. 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.

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 2009 is presented above in note 2.

15. Audit Status

This report is based upon financial statements for the year ended 31 December 2009 which are in the process of being audited. The results for the year ended 31 December 2008 as presented in the report have been audited.

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