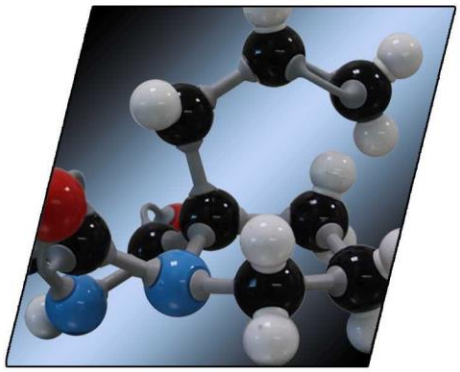
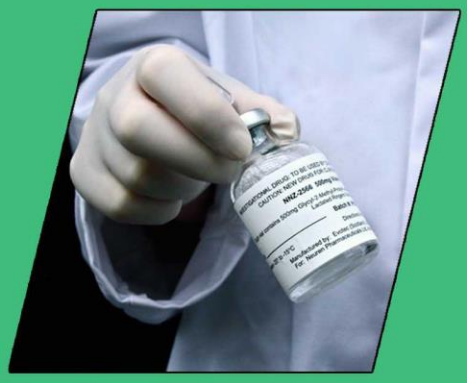


2012

ANNUAL REPORT

Neuren Pharmaceuticals Limited

ARBN 111 496 130



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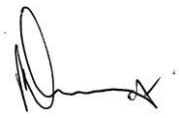
Contents

The Board of Directors is pleased to present the Annual Report of Neuren Pharmaceuticals Limited for the year ended 31 December 2012, authorised by it on 25 March 2013.

For, and on behalf of, the Board



Dr Richard Treagus
Chairman

Dr Trevor Scott
Director

25 March 2013

Corporate Directory

Company
Neuren Pharmaceuticals Limited
ARBN 111 496 130

Corporate Head Office
Level 1, 59 Wellington Street,
Freemans Bay, Auckland, New Zealand
Tel: +64 9 3700 200

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

Directors
Dr Robin Congreve
Mr Larry Glass
Mr Bruce Hancox
Dr John Holaday
Dr Trevor Scott
Dr Richard Treagus
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

The Company has defined a corporate development strategy designed to increase the value of our key assets by extending the therapeutic focus from acute brain injury to chronic conditions requiring longer term dosing. The Company's focus emphasises opportunities with five crucial attributes: solid scientific rationale, significant unmet medical need, compelling market opportunity, favourable regulatory treatment with a clear path to approval, and potential for development for additional conditions. The additional therapeutic targets selected to complement the ongoing clinical development program in traumatic brain injury are concussion and Rett Syndrome, a devastating neurodevelopmental disorder.

Scientific Rationale
Recent discoveries in the neurosciences have strengthened our understanding of the contribution of two critical cellular processes to a wide range of acute and chronic conditions including brain injury, neurodevelopmental disorders and neurodegeneration. These common processes are inflammation and the function of microglia, a type of brain cell central to the maintenance of synapses which are the connections through which signals pass between neurons. Inflammation, microglial dysfunction and deficits in synaptic function (referred to as synaptic plasticity) play a major role in the development and progression of many, if not most, brain disorders and are hallmarks of traumatic brain injury, concussion and Rett Syndrome. These are precisely the processes targeted by NNZ-2566, Neuren's lead clinical stage compound. In animal models, NNZ-2566 has been shown to significantly inhibit inflammation and microglial dysfunction and to improve synaptic plasticity with significant improvement of both cellular pathology and functional or behavioural outcomes.

Unmet Medical Need
There are no drugs approved for traumatic brain injury (TBI), concussion or Rett Syndrome. Each year, approximately 1.7 million people sustain a TBI or concussion in the US alone. Of these, 25% are classified as moderate to severe while the remaining 75% are classified as mild TBI or concussion. TBI is a contributing factor in one-third of all injury-related deaths. Moderate to severe TBI frequently leave patients with profound physical, emotional and cognitive disabilities, often requiring life-long institutional or other supportive care. Concussion also can result in long-term or permanent impairments and disabilities. The direct medical costs and indirect costs of TBI are estimated to exceed US$80 billion per year in the US.

Rett Syndrome is a rare developmental disorder affecting an estimated 20,000 people in the US. A dramatic decline typically begins between 6 and 18 months of age and results in severe physical and intellectual disabilities which require life-long medical care and 24 hour a day supportive care. Most Rett Syndrome patients live well into adulthood. In addition to direct costs for medical and related services – estimated to average more than US$20,000 per patient per year – costs for institutional and special education services as well as the financial and emotional impact on families are staggering.

Market Opportunity
As noted, there are no drugs approved to treat any of the conditions that we are pursuing. There also are few drugs in development. Some drugs approved for other indications are used to treat selected symptoms but none are more than modestly effective and none are disease-altering. NNZ-2566 provides an opportunity to be a first in class therapeutic for one or more of these important indications. With little to no competition and significant unmet medical need, we expect that product uptake will be rapid and market penetration high if Neuren's drug is approved. The Company estimates that the total potential market for TBI and concussion in the US alone is approximately US$4.5 billion and for Rett Syndrome, we estimate the total US market at US$800 million.

The majority of TBI patients are treated in trauma centres or emergency departments in tertiary care hospitals. Virtually all Rett Syndrome patients are cared for in specialty clinics. In both cases, a small number of readily identifiable physicians will represent the large majority of prescribers. This will make product marketing and sales manageable and help to maintain profit margins. Further, Neuren has sought input and support from key opinion leaders in both fields and a number of these clinicians are serving as investigators on our clinical trials.

Favourable Regulatory Treatment
Because TBI and Rett Syndrome are serious medical conditions with unmet need, drugs being developed to treat them qualify for Fast Track, Accelerated Approval and Priority Review, approaches intended to make therapeutically important drugs available at an earlier time. Fast Track designation for NNZ-2566 in TBI has been granted and has been requested for Rett Syndrome. Fast Track designation provides for early and frequent communication with the FDA, assuring that questions and issues are resolved quickly to minimise any potential impact on the progress of clinical development. The Food and Drug Administration Safety and Innovation Act, which became effective in July 2012, incorporates a new provision enabling a sponsor to request "Breakthrough Therapy" designation based on preliminary clinical evidence that the drug may demonstrate substantial improvement over available therapies. Breakthrough Therapy designation conveys

all of the Fast Track program features as well as more intensive FDA guidance on an efficient drug development program.

Potential in Additional Conditions
In large part because of the commonality of underlying pathologic processes, we believe that a product which proves to be safe and effective in TBI, concussion or Rett Syndrome has good potential as a therapy in a wide range of other neurological disorders. Among the possible acute conditions related to TBI are stroke, cardiac arrest, perinatal asphyxia and near drowning. Conditions in which positive results in concussion would be expected to be predictive include stroke and TBI recovery and recovery from myocardial infarction or coronary artery bypass graft surgery. A safe and effective therapy for Rett Syndrome would be a good candidate for other neurodevelopmental disorders such as Fragile X Syndrome, Angelman Syndrome, Phelan McDermid Syndrome and tuberous sclerosis as well as idiopathic autism.

During 2012 and the first quarter of 2013, the Company made significant progress in pursuing its strategy. Key accomplishments included:

- Completed Data and Safety Monitoring Committee (DSMC) review of data on cohorts 1 and 2 and the first 20 subjects in cohort 3 of the *INTREPID-2566* trial.
- Enrolled the 100th subject in the *INTREPID-2566* trial.
- Approval by the US Defense Department for enrolment in the *INTREPID-2566* trial under Exception from Informed Consent (EFIC) provisions which followed approval of the EFIC protocol by the FDA.
- Completion of the Phase I safety study of the oral formulation of NNZ-2566 concluding that the product is well-tolerated at the highest dose tested.
- Receipt of a US$600,000 grant from the International Rett Syndrome Foundation by the lead investigators from Baylor College of Medicine to support the first Phase 2 trial in Rett Syndrome.
- Filing and approval of an IND for NNZ-2566 in Rett Syndrome.
- Completion of a study in a mouse model of Fragile X Syndrome which found that NNZ-2566 normalized all anatomic, biochemical and behavioural features of the disorder with 28 days of dosing.
- Issuance of a second US patent for oral formulation of NNZ-2566 with additional claims for composition and methods of oral administration in a wider range of therapeutic indications.
- Issuance of a European patent for use of nefiracetam (Motiva®) to treat Apathy Syndrome in patients with depression.
- Entered into a research agreement with Noble Life Sciences to continue research and development on Perseis' therapeutic antibodies.

Updates on active development programmes are provided below.

INTREPID-2566
The INTREPID-2566 study is a randomised, double-blind, placebo-controlled, dose escalation trial to test intravenous NNZ-2566 as a treatment for acute, moderate to severe TBI. 260 subjects between 16 and 75 years of age will be enrolled in one of three, sequential dose cohorts (30 subjects at 1 mg/kg/hr, 30 subjects at 3 mg/kg/hr and 200 subjects at 6 mg/kg/hr, all administered for 72 hours by continuous infusion following a bolus loading dose of 20 mg/kg) with 2:1 randomisation of active to placebo. Endpoints include safety, two global functional measures (Glasgow Outcome Scale Extended and Mayo Portland Adaptability Inventory), incidence of non-convulsive seizures detected by continuous EEG monitoring and a battery of standardised neuropsychological tests. Safety is assessed through the earlier of day 30 or discharge for AEs and through day 90 for SAEs. EEG data are collected for 120 hours following enrolment. Functional and neuropsychological efficacy measures are assessed at 30 and 90 days.

Test article administration is begun within 8 hours of injury which requires obtaining informed consent and randomisation within ~6 ½ hours to enable preparation of the infusion solution. As essentially all subjects are unconscious in the immediate post-injury period, a Legally Authorised Representative (LAR) must sign the consent form. LARs are frequently not able to reach the hospital within the prescribed period which has resulted in not being able to enrol approximately 35% of otherwise eligible subjects. Slow enrolment also appears to reflect a generalised reduction in the incidence of TBI which has been estimated at 35% between 1993/4 and 2006/7 in the US.

103 subjects have now been enrolled in the study – 30 in cohort 1, 30 in cohort 2 and 43 in cohort 3. The three best performing sites (Arrowhead Regional Medical Center, University of Pittsburgh and the University of California at Davis) have collectively enrolled 68 subjects (66%). All three of those centres are participating in the EFIC protocol. While the FDA approved enrolment under EFIC in July 2011, separate

approval is required for clinical trials utilising Department of Defense (DOD) funding. As sites complete the community consultation and public disclosure (CCPD) process required by FDA regulations and obtain local IRB approval, their documentation is submitted for DOD review and approval. Final DOD approval for the EFIC protocol and for the first site participating under EFIC was received on 14 January 2013. Five sites have obtained local IRB approval. Applications from these sites are pending review by DOD. Five additional sites are currently completing the CCPD process. Once these sites have obtained local IRB approval, their application packages will be submitted for DOD review and approval.

As the EFIC protocol is implemented, we expect a significant increase in enrolment by participating sites. Further, 11 new sites are in the process of being activated and are expected to receive DOD approval by July which will mean a total of 18 sites actively enrolling, 10 of which will be under the EFIC protocol. The Company remains absolutely committed to and focused on accelerating enrolment on the INTREPID-2566 trial.

Phase 2 Concussion Study

The IND for use of the oral formulation of NNZ-2566 to treat concussion or mild TBI was approved by the FDA at the end of 2011. The Phase I clinical protocol enabled by that approval was amended to significantly increase the dose administered to support higher dose levels in subsequent Phase 2 trials. At the top dose of twice daily 100 mg/kg for five days, oral NNZ-2566 appeared to be safe and well-tolerated. The final Phase 1 study report was received in late October 2012.

The Phase 2 trial is presently planned as a randomised, placebo-controlled, double-blind study of NNZ-2566 (35 mg/kg or 70 mg/kg) or placebo, stratified 1:1:1, administered orally twice daily beginning within 24 hours of injury for 7 days. We intend to enrol 132 subjects between 16 and 75 years of age. Key outcome assessments will be time to return to baseline pre-injury neuropsychological performance, neuropsychological performance and clinical symptoms at 28 days and prevalence of post-concussion symptoms at 8 weeks. We are currently evaluating the suitability of clinical sites in both civilian and military settings to ensure that selected sites can enrol efficiently.

Phase 2 Rett Syndrome Study

Rett Syndrome is a post-natal neurological disorder which occurs almost exclusively in females following apparently normal development for the first six months of life. Typically, between 6 to 18 months of age, patients experience a period of rapid decline with loss of purposeful hand use and spoken communication. Many patients have recurrent seizures. They experience a variety of motor problems including increased muscle tone (spasticity) and abnormal movements. They are never able to provide for their own needs. Rett Syndrome is caused by mutations on the X chromosome of a gene called MeCP2. There are more than 200 different mutations found on the MECP2 gene. Rett Syndrome strikes all racial and ethnic groups and occurs worldwide in up to 1 of every 10,000 female births and affects some 20,000 girls and women in the US alone.

In 2009, Daniela Tropea and her colleagues from MIT published a paper showing that IGF-1 and, more particularly, (1-3)IGF-1 (Glypromate) reversed key symptoms and improved survival in a mouse model of Rett Syndrome (MeCP2 knockout model). Subsequently, Neuren entered into a collaboration with the Rett Syndrome Research Trust to test NNZ-2566 in the MeCP2 model. The study showed positive effects on synaptic plasticity, dendritic morphology and survival. The putative mechanism of action is inhibition of neuroinflammatory cytokines and normalisation of microglial function which are key molecular and cellular processes that are dysregulated in Rett Syndrome. Comparable measurements in TBI and stroke model strongly support this and results from the Fragile X model confirm it as well. The International Rett Syndrome Foundation has provided US$600,000 in grant funding to the principal investigators at Baylor College of Medicine to help support the trial.

The Phase 2 Rett Syndrome trial is actively recruiting. Approximately 120 families of patients who meet the primary inclusion criteria have been identified by Baylor and are being screened for enrolment and randomisation. The trial will enrol up to 60 subjects from 16-40 years of age, allowing for some early discontinuation, in order to have 48 who complete all dosing and assessments. The study will involve two dose cohorts (35 mg/kg and 70 mg/kg twice daily). A DSMC review will be conducted on completion of the lower dose cohort. Assessments include safety, autonomic measures (respiratory function, heart rhythm and rate), EEG abnormalities, behaviour and global and functional measures out to day 28. The study is forecast to complete enrolment and follow-up with top-line results announced in 2H 2014.

Fragile X Syndrome Model

Fragile X Syndrome, like Rett Syndrome, is a genetically caused neurodevelopmental disorder. It is the most common inherited form of intellectual disability in males with approximately 60,000 people affected. NNZ-2566 was tested in a mouse model of Fragile X Syndrome. Animals were dosed once daily for 28 days and assessments were undertaken at 42 days. NNZ-2566 normalised all anatomic, biochemical and behavioural features of the disorder with results that achieved statistical significance in all outcome measures. Full

results will be presented at a neuropsychiatry meeting in April. The Company is presently considering the implications of these results and options for possible development.

NNZ-2591
NNZ-2591 is the lead molecule in Neuren's diketopiperazine (DKP or cyclic dipeptide) portfolio. It is a synthetic analogue of the DKP cyclo-(Gly-Pro) which occurs naturally in the brain and has been described as having neuroprotective, anxiolytic and nootropic (memory enhancing) effects. NNZ-2591 has been shown to be neuroprotective in vitro in cytotoxicity tests, reduce infarct size in rodent models of stroke and hypoxia-ischemia, improve behavioural outcome following repeated treatment in Parkinsonian rats, exhibit nootropic effects in cognitively-impaired rats and provide significant protection against the development of peripheral neuropathy. Like NNZ-2566, NNZ-2591 significantly attenuates activation of microglia following injury. The molecule has excellent oral bioavailability (~100%) and is currently being assessed as a clinical candidate for the treatment of chronic neurological disorders. NNZ-2591 has been protected for composition of matter and therapeutic use in issued patents and pending applications.

Perseis Therapeutics
Perseis Therapeutics Limited, a joint venture between the New Zealand Breast Cancer Research Trust and Neuren Pharmaceuticals Limited, is developing anti-cancer antibodies which target a family of proteins produced by breast and many other cancers. Called Trefoil Factors (TFFs), these proteins make cancers more aggressive and more likely to spread. High TFF levels are associated with resistance to treatment and poorer survival.

Because of their role in tumour growth and drug resistance, TFFs are highly promising targets. Perseis is developing antibodies that bind to TFFs and reduce the exposure of cancer cells to these proteins. In early experiments conducted by Perseis, antibodies against TFF proteins showed the ability to kill cancer cells being grown outside the body, including breast cancer cells that were resistant to tamoxifen. More recently, an antibody developed by Perseis based on a research license for an antibody library developed by the University of California San Francisco (UCSF) was tested in mice implanted with human breast cancer cells. Mice that were treated with the new antibody had tumours that were 35% smaller at 8 weeks than in untreated animals as well as fewer metastases and improved survival.

Perseis has entered into a research agreement with Noble Life Sciences to continue development of the antibodies. Noble has successfully transfected the sequences from the UCSF library into stable cell lines that are producing monoclonal antibodies. The 5 most active antibodies are being further tested for anti-tumour activity and affinity (strength of binding to TFF) prior to final selection of the lead molecule(s) for xenograft studies. Two xenograft models, one in breast cancer and one in stomach cancer, have been optimised and validated for the studies.

Motiva®
Motiva® (nefiracetam) is a molecule that belongs to a class of drugs with nootropic and anti-epileptic actions. In a number of Phase 2 and 3 trials conducted in stroke patients in Japan by Daiichi, the originator of the compound, statistically significant improvements were observed in psychiatric symptoms and activities of daily living. In a Phase 2 trial completed by Daiichi in the US in stroke patients with depression, a statistically significant effect was observed in the most severely depressed patients but not in those with less severe depression. Among patients exhibiting apathy, a statistically significant, time- and dose-dependent benefit was detected. A Phase 2 trial of Motiva® in stroke patients with apathy but not depression is presently enrolling subjects at the Freemantle and Royal Perth Hospitals in Western Australia in a study funded by the National Health and Medical Research Council to Professor Sergio Starkstein. An interim analysis is planned for mid-2013.

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 and discovery of molecules to treat certain cancers. The drugs target symptoms of acute brain injury resulting from traumatic brain injury and stroke, as well as symptoms of chronic conditions such as Rett Syndrome, Fragile X Syndrome, and Parkinson's disease. The Group has operations in New Zealand and the United States.

Performance Overview
The Intrepid-2566 and Motiva® trials continued throughout 2012, and in addition Neuren undertook an additional Phase 1 safety study to support the oral administration of NNZ-2566. Following the successful completion of this, the Company commenced trial start-up activities for the mild-TBI (concussion) and Rett Syndrome Phase 2 studies, which together with the Perseis trefoil factor anti-cancer programme and a study of NNZ-2566 in a Fragile X animal model, resulted in higher research & development costs in 2012 than in 2011. The foreign exchange loss in 2012 arose mainly on Australian dollar cash balances held since the Rights Issue and private placements conducted in 2011, and the non-cash share option compensation expense largely related to the amortisation over the vesting period of the cost of options awarded to employees and directors during the previous year.

Neuren's operations for 2012 are described further in the Chief Executive's Report on pages 1 to 4.

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

The Group's net loss for the year ended 31 December 2012 was $6,422,000 (2011: $6,113,000). The detailed financial statements are presented on pages 13 to 29.

The net deficit per share for 2012 was $0.01 (2011: $0.01) based on 1,174,106,753 weighted average number of shares outstanding (2011: 764,781,209).

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

Directors
Dr Richard Treagus, BScMed, MBChB, MPharmMed, MBA (Executive Chairman)
Dr Treagus is a medical doctor and entrepreneur, with more than 20 years experience in all aspects of the international biopharmaceutical industry. He is a business builder with a strong track record of delivering exceptional outcomes and shareholder returns. He has held senior executive roles with pharmaceutical organisations in South Africa and Australia and over the years has successfully established numerous pharmaceutical business partnerships in the US, Europe and Asia. Dr Treagus served as Chief Executive of ASX-listed company Acrux Limited until 2012. Under his leadership Acrux gained FDA approval for three drug products and concluded the largest product licensing deal in the history of the Australian biotech industry; a transaction with Eli Lilly worth US$335m plus royalties. Acrux is now a leading Australian biotechnology company and has been profitable since 2010. In 2010 Dr Treagus was awarded the Ernst and Young Entrepreneur-of-the-Year (Southern Region) in the Listed Company Category.

Dr Robin Congreve, LLM, PhD (Non-Executive Director)
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.

Mr Larry Glass (Managing Director and CEO)
Mr Glass joined Neuren in early 2004 as the Executive Vice President, USA. He is a seasoned manager with more than 30 years in the life sciences industry. Before he joined Neuren, he worked as an independent consultant for a number of biotech companies in the US and internationally providing management, strategic and business development services. Prior to that, he was CEO of a contract research organisation that provided preclinical research and clinical trials support for major pharmaceutical and biotechnology companies and the US government. For a number of years, the CRO operated as a subsidiary of a NYSE-listed company and was subsequently sold to a European biopharmaceutical enterprise which was then acquired by Johnson & Johnson. Mr Glass was appointed Managing Director in May 2012.

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

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

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

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

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.

Mr L Glass
Mr Glass does not have any interests considered to cause any potential conflict of interests.

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

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.

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 R Treagus
Dr Treagus does not have any 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.

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 2012 $'000	Other Remuneration 2012 $'000	Directors' Fees 2011 $'000	Other Remuneration 2011 $'000
Dr Robin Congreve (Chairman)	60	40	60	40
Mr Larry Glass	-	522	-	-
Dr John Holaday	35	-	35	-
Mr Bruce Hancox	29	-	-	-
Dr Graeme Howie	-	-	35	-
Dr Trevor Scott	40	20	40	20
Dr Doug Wilson	35	-	35	-

On retirement in May 2012, Dr Howie waived unpaid director fees due of $159,000. Details regarding 2011 Share Option Plan awards to directors in accordance with approvals sought under ASX Listing Rule 10.14 are set out under "Additional Information" on page 32 of this Annual Report.

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

	2012 $'000	2011 $'000
$120,000 - $129,999	-	1
$140,000 - $149,999	2	-
$160,000 - $169,999	1	1
$210,000 - $219,999	1	1
$240,000 - $249,999	-	1
$250,000 - $259,999	1	-
$380,000 - $389,999	-	1

Donations
The Company made no donations during the year (2011: nil).

Auditors
PricewaterhouseCoopers are the auditors of the Company. Audit fees in relation to the annual and interim financial statements were $45,000 (2011: $47,000). During 2011 PricewaterhouseCoopers also received $1,000 (2012: nil) in relation to other financial advice and services.

Neuren Pharmaceuticals Limited

Corporate Governance Statement

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

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

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

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

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

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

The Board appoints the Chief Executive Officer and the responsibility for the operation and administration of the Company has been delegated to the Chief Executive Officer and senior management. The Board ensures this team is appropriately qualified to discharge their responsibilities and reviews the performance of the Chief Executive Officer annually against agreed objectives. This performance review was conducted in early in 2012 and again later in the year. 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 Richard Treagus	Chairman and executive director	Non-independent	<1
Mr Larry Glass	Managing Director and CEO	Non-independent	1
Dr Robin Congreve	Non-executive director	Independent	11
Mr Bruce Hancox	Non-executive director	Independent	1
Dr John Holaday	Non-executive director	Independent	3
Dr Trevor Scott	Non-executive director	Independent	10
Dr Doug Wilson	Non-executive director	Independent	9

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

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

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

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

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

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

All members of the Committee meet at least twice during the year. In undertaking these tasks the Remuneration and Audit Committee meets separately with management and external auditors where

required. The Committee also seeks assurances from the Chief Executive Officer and Chief Financial Officer in respect of the accuracy and compliance of the Company's annual and half-year financial statements and effectiveness of the Company's management of its material business risks.

Diversity
The Board has considered establishing a diversity policy, however due to the small number and low turnover of employees within the Group and the legislative framework regarding employment matters within which the Group operates, a separate formal diversity policy has not been adopted. The Group does not discriminate on the basis of age, ethnicity or gender in any employment matters, and when a position becomes vacant the Group seeks to employ the best candidate available for the position. Recruitment agencies are used to assist with identifying and assessing candidates, however employee turnover is low with the average term of employment currently at 5.7 years. The Group presently employs ten people with a number of different cultural backgrounds, of which five are women. In addition, at board level, there are presently nine directors (including subsidiary appointments) of which one is a woman.

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

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

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

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

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

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

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

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

- all clinical activities are covered by clinical trials insurance policies at levels of coverage deemed acceptable by the Board and Chief Executive Officer;
- all clinical trials and studies involving human subjects are overseen by an independent Data Safety and Monitoring Committee (DSMC), the composition and charter for which are fully compliant with FDA and ICH guidelines ;
- for clinical trials involving patients, a Clinical Advisory Board comprising board-certified experts in the relevant clinical specialties and subspecialties provides advice and guidance to the CEO in the design and implementation of trials from both ethical and safety perspectives;
- for clinical trials conducted in the US, a Medical Monitor oversees pharmacovigilance and safety reporting procedures and practices;
- all emergent safety issues are immediately brought to the attention of the DSMC by the Medical Monitor which has unilateral authority to unblind data and, if deemed necessary, to halt enrolment;
- before any clinical trial is initiated, protocols are reviewed and approved by cognizant national regulatory agencies (e.g., FDA, Med-Safe, Australian Therapeutic Goods Administration), a central Institutional Review Board (IRB) and independent IRBs or Ethics Committees at each participating clinical centre which are fully independent of Company management;

- clinical operations management staff maintain current certification by the Association of Clinical Research Professionals with respect to knowledge of and compliance with clinical research regulations and guidelines and Good Clinical Practices; and
- the Company employs a full-time Director of Quality Assurance and Regulatory Affairs to oversee compliance with FDA/ICH guidelines for preclinical research, manufacturing and clinical trials. This person reports directly to the CEO.

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

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

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

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 2012

Neuren Pharmaceuticals Limited

Statements of Comprehensive Income
for the year ended 31 December 2012

	Notes	Consolidated 2012 NZ$'000	Consolidated 2011 NZ$'000	Parent 2012 NZ$'000	Parent 2011 NZ$'000
Revenue - interest income		253	174	250	166
		253	174	250	166
Other income - grants		5,333	4,150	-	-
Total revenue and other income		5,586	4,324	250	166
Depreciation and amortisation expense		(456)	(465)	(92)	(95)
Research and development costs		(8,053)	(7,002)	(1,907)	(1,374)
Patent costs		(177)	(192)	(86)	(80)
Share option compensation expense		(1,694)	(1,729)	(1,694)	(1,729)
Foreign exchange gain (loss)		(179)	299	(146)	315
Interest expense		-	(8)	-	(8)
Corporate and administrative costs		(1,571)	(1,459)	(1,461)	(1,233)
Loss before income tax	4	(6,544)	(6,232)	(5,136)	(4,038)
Income tax expense	5	-	-	-	-
Loss after income tax		(6,544)	(6,232)	(5,136)	(4,038)
Other comprehensive income (expense), net of tax					
Exchange differences on translation of foreign operations		(122)	(70)	-	-
Total comprehensive loss		$ (6,666)	$ (6,302)	$ (5,136)	$ (4,038)
Profit (loss) after income tax attributable to:					
Equity holders of the company		(6,422)	(6,113)	(5,136)	(4,038)
Minority interest		(122)	(119)	-	-
		$ (6,544)	$ (6,232)	$ (5,136)	$ (4,038)
Total comprehensive loss attributable to:					
Equity holders of the company		(6,544)	(6,183)	(5,136)	(4,038)
Minority interest		(122)	(119)	-	-
		$ (6,666)	$ (6,302)	$ (5,136)	$ (4,038)
Basic and diluted loss per share	6	$ (0.01)	$ (0.01)		

The notes on pages 17 to 29 form part of these financial statements

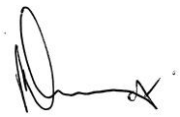
Neuren Pharmaceuticals Limited

Statements of Financial Position
as at 31 December 2012

	Notes	Consolidated 2012 NZ$'000	Consolidated 2011 NZ$'000	Parent 2012 NZ$'000	Parent 2011 NZ$'000
ASSETS					
Current assets:					
Cash and cash equivalents	7	6,477	9,844	6,450	9,797
Trade and other receivables	8	164	138	1,521	1,015
Total current assets		6,641	9,982	7,971	10,812
Non-current assets:					
Property, plant and equipment	9	32	6	32	6
Intangible assets	10	4,021	4,651	472	544
Investments in subsidiaries	14	-	-	4,257	4,257
Total non-current assets		4,053	4,657	4,761	4,807
TOTAL ASSETS		$ 10,694	$ 14,639	$ 12,732	$ 15,619
LIABILITIES AND EQUITY					
Current liabilities:					
Trade and other payables	11	2,676	2,204	1,387	1,387
Lease incentive – short term		7	9	7	9
Total current liabilities		2,683	2,213	1,394	1,396
Non-current liabilities:					
Lease incentive – long term		17	-	17	-
Total liabilities		2,700	2,213	1,411	1,396
EQUITY					
Share capital	12	80,914	80,374	80,914	80,374
Other reserves		9,933	8,361	10,192	8,498
Accumulated deficit		(82,672)	(76,250)	(79,785)	(74,649)
Total equity attributable to equity holders		8,175	12,485	11,321	14,223
Minority interest in equity		(181)	(59)	-	-
Total equity		7,994	12,426	11,321	14,223
TOTAL LIABILITIES AND EQUITY		$ 10,694	$ 14,639	$ 12,732	$ 15,619

The notes on pages 17 to 29 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 2013.



Dr Richard Treagus
Chairman

Dr Trevor Scott
Director

Neuren Pharmaceuticals Limited

Statements of Changes in Equity
for the year ended 31 December 2012

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 2011	$ 68,858	$ 6,053	$ (67)	$ (70,137)	$ 4,707	$ (53)	$ 4,654
Comprehensive loss for the year			(70)	(6,113)	(6,183)	(119)	(6,302)
Transactions with Owners:							
Shares issued in private placements	6,330				6,330		6,330
Shares issued in rights issue	4,774				4,774		4,774
Shares issued on option exercise	311				311		311
Shares issued on conversion of notes	928				928		928
Share issue costs expensed	(111)				(111)		(111)
Share option grants for services	(716)	2,445			1,729		1,729
Minority interest issued in subsidiary					-	113	113
Equity as at 31 December 2011	$ 80,374	$ 8,498	$ (137)	$ (76,250)	$ 12,485	$ (59)	$ 12,426
Comprehensive loss for the year			(122)	(6,422)	(6,544)	(122)	(6,666)
Transactions with Owners:							
Shares issued on option exercise	547				547		547
Share issue costs expensed	(7)				(7)		(7)
Share option grants for services		1,694			1,694		1,694
Equity as at 31 December 2012	$ 80,914	$10,192	$ (259)	$ (82,672)	$ 8,175	$ (181)	$ 7,994

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 2011	$ 68,858	$ 6,053	$ -	$ (70,611)	$ 4,300
Comprehensive loss for the year				(4,038)	(4,038)
Transactions with Owners:					
Shares issued in private placements	6,330				6,330
Shares issued in rights issue	4,774				4,774
Shares issued on option exercise	311				311
Shares issued on conversion of notes	928				928
Share issue costs expensed	(111)				(111)
Share option grants for services	(716)	2,445			1,729
Equity as at 31 December 2011	$ 80,374	$ 8,498	$ -	$ (74,649)	$ 14,223
Comprehensive loss for the year				(5,136)	(5,136)
Transactions with Owners:					
Shares issued on option exercise	547				547
Share issue costs expensed	(7)				(7)
Share option grants for services		1,694			1,694
Equity as at 31 December 2012	$ 80,914	$10,192	$ -	$ (79,785)	$ 11,321

The notes on pages 17 to 29 form part of these financial statements

Neuren Pharmaceuticals Limited

Statements of Cash Flows
for the year ended 31 December 2012

	Consolidated		Parent	
	2012 NZ$'000	2011 NZ$'000	2012 NZ$'000	2011 NZ$'000
Cash flows from operating activities:				
Receipts from grants	5,333	4,150	-	-
Interest received	254	174	252	165
GST refunded	77	57	77	67
Interest paid	-	-	-	-
Payments to employees	(1,696)	(1,545)	(1,611)	(1,398)
Payments to other suppliers	(7,687)	(6,948)	(1,844)	(1,311)
Net cash used in operating activities	(3,719)	(4,112)	(3,126)	(2,477)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(37)	(2)	(37)	(2)
Purchase of intangible assets	(8)	-	(8)	-
Proceeds from sale of property, plant and equipment	2	-	2	-
Advance (to) from subsidiaries	-	-	(576)	(303)
Net cash used in investing activities	(43)	(2)	(619)	(305)
Cash flows from financing activities:				
Proceeds from the issue of shares	-	11,104	-	11,104
Proceeds from the exercise of options	547	311	547	311
Proceeds from the issue of convertible notes	-	316	-	316
Proceeds from minority interest	-	113	-	-
Payment of share issue expenses	(7)	(113)	(7)	(113)
Net cash provided from financing activities	540	11,731	540	11,618
Net (decrease) increase in cash	(3,222)	7,617	(3,205)	8,836
Effect of exchange rate changes on cash balances	(145)	271	(142)	308
Cash at the beginning of the year	9,844	1,956	9,797	653
Cash at the end of the year	$ 6,477	$ 9,844	$ 6,450	$ 9,797
Reconciliation with loss after income tax:				
Loss after income tax	$ (6,544)	$ (6,232)	$ (5,136)	$ (4,038)
Non-cash items requiring adjustment:				
Depreciation of property, plant and equipment	12	19	12	17
Amortisation of intangible assets	444	446	80	78
Convertible note interest	-	8	-	8
Share option compensation expense	1,694	1,729	1,694	1,729
Foreign exchange (gain) loss	179	(299)	146	(315)
Lease incentive recognition and amortisation	15	(12)	15	(12)
Changes in working capital:				
Trade and other receivables	(29)	282	26	-
Trade and other payables	510	(53)	37	56
Net cash used in operating activities	$ (3,719)	$ (4,112)	$ (3,126)	$ (2,477)

The notes on pages 17 to 29 form part of these financial statements

Neuren Pharmaceuticals Limited

Notes to the Financial Statements
for the year ended 31 December 2012

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 and discovery of molecules to treat certain cancers. The drugs target symptoms of acute brain injury resulting from traumatic brain injury and stroke, as well as symptoms of chronic conditions such as Rett Syndrome, Fragile X Syndrome, and Parkinson's disease. 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 1, 59 Wellington Street, Auckland, and in Australia Level 13, 122 Arthur Street, North Sydney. Neuren ordinary shares are listed 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 2013.

Inherent Uncertainties

- There are inherent uncertainties associated with assessing the carrying value of the acquired intellectual property. The ultimate realisation of the carrying values of intellectual property totalling $4,015,000 (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 2012 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 2012 and the results of all subsidiaries for the year then ended. Neuren Pharmaceuticals Limited and its subsidiaries, which are designated as profit-oriented entities for financial reporting purposes, together are referred to in these financial statements as the Group.

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

Statutory Base

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

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

Historical cost convention

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

Critical accounting estimates

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

Changes in accounting policies

There were no changes in accounting policies in the year ended 31 December 2012.

(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 Statement of Comprehensive Income.

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 Statement of Comprehensive Income, 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income 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.

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 using the following criteria:

- 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 Group 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 Statement of Comprehensive Income 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 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 Statement of Comprehensive Income 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) 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 Statement of Comprehensive Income, 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.

(q) 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.

(r) 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 due to their short term nature.

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.

(s) 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.

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

- NZ IFRS 13 'Fair value measurement' (effective from 1 January 2013) replaces the guidance on fair value measurement in existing IFRS literature with a single standard. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 December 2013.
- IAS 1 Presentation of Financial Statements (as amended in 2011) will be effective for years beginning 1 July 2012. It requires that items in Other Comprehensive Income be grouped on the basis of whether they are potentially reclassifiable to the income statement in subsequent periods. The Group intends to adopt the new standard from 1 January 2013.
- NZ IFRS 10 'Consolidated Financial Statements' (effective from 1 January 2013) requires a parent company to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in NZ IAS 27 'Consolidated and Separate Financial Statements'. The Group does not intend to adopt this until the effective date.
- NZ IFRS 9: Financial Instruments (effective for annual periods beginning on or after 1 January 2015) partly replaces NZ IAS 39 and introduces requirements for classifying and measuring financial assets and liabilities.

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	2012 New Zealand NZ$'000	2012 United States NZ$'000	2012 Consolidation Adjustments NZ$'000	2012 Total Group NZ$'000
Segment revenue	272	5,314	-	5,586
Segment result before minority interest	(5,576)	(968)	-	(6,544)
Segment assets	12,783	3,644	(5,733)	10,694
Segment liabilities	2,117	2,059	(1,476)	2,700
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	45	-	-	45
Depreciation and amortisation expense	96	360	-	456

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

4. Expenses

	Consolidated		Parent	
	2012 NZ$'000	2011 NZ$'000	2012 NZ$'000	2011 NZ$'000
Loss before income tax includes the following specific expenses:				
Depreciation – property, plant and equipment				
Scientific equipment	-	8	-	8
Computer equipment	10	6	10	4
Fixtures and fittings	1	3	1	3
Leasehold improvements	1	2	1	2
Total depreciation	12	19	12	17
Amortisation – intangible assets				
Intellectual property	442	446	78	78
Software	2	-	2	-
Total amortisation	444	446	80	78
Remuneration of auditors				
Audit fees	45	47	44	43
Advisory fees	-	-	-	-
Taxation fees	-	1	-	1
Total remuneration of auditors	45	48	44	44
Employee benefits expense				
Salaries and wages	1,581	1,567	1,497	1,421
Share option compensation	997	833	997	833
Total employee benefits expense	2,578	2,400	2,494	2,254
Directors' fees	208	205	208	205
Directors' fees waived	(159)	-	(159)	-
Directors' share option compensation	697	720	697	720
Lease expense	128	175	128	175

5. Income tax

	Consolidated		Parent	
	2012 NZ$'000	2011 NZ$'000	2012 NZ$'000	2011 NZ$'000
Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
Income tax expense	-	-	-	-
Numerical reconciliation of income tax expense to prima facie tax payable (receivable):				
Loss before income tax	(6,544)	(6,232)	(5,136)	(4,038)
Tax at rates applicable in the respective countries	(1,963)	(1,983)	(1,438)	(1,130)
Tax effect of amounts not deductible (taxable) in calculating taxable income:				
Share option compensation	474	484	474	484
Other expenses not deductible for tax purposes	1	-	1	-
	(1,488)	(1,499)	(963)	(646)
Foreign jurisdiction withholding tax	-	-	-	-
Under (over) provision in prior years	2	1,069	-	-
Deferred tax assets not recognised	1,486	430	963	646
Income tax expense	-	-	-	-

The weighted average applicable tax rate for New Zealand segments is 28% and for United States segments 41% (2011: 28% 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 2012 and 2011, the Company's potentially dilutive ordinary share equivalents (being the options over ordinary shares set out in note 12) have an anti-dilutive effect on loss per share and, therefore, have not been included in determining the total weighted average number of ordinary shares outstanding for the purpose of calculating diluted loss per share.

	Consolidated	
	2012	2011
	NZ$'000	NZ$'000
Profit (loss) after income tax attributable to equity holders	(6,422)	(6,113)
Weighted average shares outstanding (basic)	1,174,106,753	764,781,209
Weighted average shares outstanding (diluted)	1,174,106,753	764,781,209
Basic and diluted loss per share	($0.01)	($0.01)

7. Cash and cash equivalents

	Consolidated		Parent	
	2012	2011	2012	2011
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Cash	52	38	38	29
Demand and short-term deposits	6,425	9,806	6,412	9,768
	6,477	9,844	6,450	9,797

8. Trade and other receivables

	Consolidated		Parent	
	2012	2011	2012	2011
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Trade receivables	14	24	11	24
Prepayments	150	114	33	47
Due from subsidiaries	-	-	1,477	944
	164	138	1,521	1,015

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 2011					
Cost	100	75	43	10	228
Accumulated depreciation	(92)	(70)	(39)	(6)	(207)
Net book value	8	5	4	4	21
Movements in the year ended 31 December 2011					
Opening net book value	8	5	4	4	21
Additions	-	2	-	-	2
Depreciation	(8)	(4)	(3)	(2)	(17)
Disposals	-	-	-	-	-
Closing net book value	-	3	1	2	6
As at 31 December 2011					
Cost	100	77	43	10	230
Accumulated depreciation	(100)	(74)	(42)	(8)	(224)
Net book value	-	3	1	2	6
Movements in the year ended 31 December 2012					
Opening net book value	-	3	1	2	6
Additions	-	37	1	-	38
Depreciation	-	(10)	(1)	(1)	(12)
Disposals	-	-	-	-	-
Closing net book value	-	30	1	1	32
As at 31 December 2012					
Cost	41	53	36	2	132
Accumulated depreciation	(41)	(23)	(35)	(1)	(100)
Net book value	-	30	1	1	32

In addition to the Parent's property, plant and equipment noted above, the only other property, plant and equipment within the Group was computer equipment with a cost of US$4,000 purchased in 2009 by the US based subsidiary for use in the Phase 2 trial of NNZ-2566. Accumulated depreciation as at 31 December 2012 was US$4,000 (2011: US$4,000) and the depreciation expense for the year ended 31 December 2012 was nil (2011: US$1,000).

10. Intangible assets

Consolidated	Intellectual Property NZ$'000	Acquired Software NZ$'000	Total NZ$'000
As at 1 January 2011			
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
Movements in the year ended 31 December 2012			
Opening net book value	4,651	-	4,651
Additions	-	8	8
Amortisation	(442)	(2)	(444)
Exchange differences	(194)	-	(194)
Closing net book value	4,015	6	4,021
As at 31 December 2012			
Cost	6,583	8	6,591
Accumulated amortisation	(2,568)	(2)	(2,570)
Net book value	4,015	6	4,021

Parent	Intellectual Property NZ$'000	Acquired Software NZ$'000	Total NZ$'000
As at 1 January 2011			
Cost	1,167	35	1,202
Accumulated amortisation	(545)	(35)	(580)
Net book value	622	-	622
Movements in the year ended 31 December 2011			
Opening net book value	622	-	622
Amortisation	(78)	-	(78)
Closing net book value	544	-	544
As at 31 December 2011			
Cost	1,167	-	1,167
Accumulated amortisation	(623)	-	(623)
Net book value	544	-	544
Movements in the year ended 31 December 2012			
Opening net book value	544	-	544
Additions	-	8	8
Amortisation	(78)	(2)	(80)
Closing net book value	466	6	472
As at 31 December 2012			
Cost	1,167	8	1,175
Accumulated amortisation	(701)	(2)	(703)
Net book value	466	6	472

11. Trade and other payables

	Consolidated		Parent	
	2012	2011	2012	2011
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Trade payables	2,168	1,596	929	807
Accruals	360	346	310	318
Employee benefits	148	262	148	262
Due to subsidiaries	-	-	-	-
	2,676	2,204	1,387	1,387

12. Share capital

Consolidated and Parent	2012 Shares	2011 Shares	2012 NZ$'000	2011 NZ$'000
Issued share capital				
Ordinary shares on issue at beginning of year	1,155,864,425	424,764,802	80,374	68,858
Shares issued in private placements	-	384,092,211	-	6,330
Shares issued in rights Issue	-	293,484,412	-	4,774
Shares issued on conversion of notes	-	39,273,507	-	928
Shares issued on option exercise	26,922,145	14,249,493	547	311
Share issue expenses – cash issue costs	-	-	(7)	(111)
– fair value of options granted	-	-	-	(716)
	1,182,786,570	1,155,864,425	80,914	80,374

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

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

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

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

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

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

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

Share Option Plan
The Company has established a Share Option Plan to assist in the retention and motivation of senior employees of, and certain consultants to, the Company ("Participants"). Under the Share Option Plan, options may be offered to Participants by the Remuneration and Audit Committee. The maximum number of options to be issued and outstanding under the Share Option Plan is 15% of the issued ordinary shares of the Company at any time, with one third of these available to the directors with the approval of shareholders. No payment is required for the grant of options under the Share Option Plan. Each option is an option to subscribe in cash for one ordinary share, but does not carry any right to vote. Upon the exercise of an option by a Participant, each ordinary share issued will rank equally with other ordinary shares of the Company. Options granted under the Share Option Plan generally vest

over three years service by the Participant and lapse five years after grant date. At 31 December 2012 there were 153 million options outstanding under the Share Option Plan (2011: 138 million).

Movements in the number of share options are as follows:

Consolidated and Parent	Options	Weighted Average Exercise Price (NZ$)	Exercisable	Weighted Average Exercise Price (NZ$)
Outstanding at 1 January 2011	166,453,155	$ 0.048	166,453,155	$ 0.048
Granted	161,273,507	$ 0.029		
Exercised	(14,249,493)	$ 0.022		
Expired	(3,000,000)	$ 0.325		
Outstanding at 31 December 2011	310,477,169	$ 0.036	235,810,505	$ 0.038
Granted	15,000,000	$ 0.024		
Exercised	(26,922,145)	$ 0.020		
Outstanding at 31 December 2012	298,555,024	$ 0.036	251,221,695	$ 0.037

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

	2012		2011	
Consolidated and Parent	Options	Weighted Average Remaining Contract Life (years)	Options	Weighted Average Remaining Contract Life (years)
Exercise price range				
A$0. 0377 – A$0.0457	119,935,804	2.3	119,935,804	3.3
A$0. 0130 – A$0.0337	178,619,220	2.7	190,541,365	3.5
	298,555,024	2.5	310,477,169	3.4

The weighted average assessed fair value of options granted during the year determined using the Black-Scholes valuation model was NZ$0.035 per option (2011: NZ$0.027). The significant weighted average inputs into the model were a grant date share price of NZ$0.043 (2011: NZ$0.032), volatility of 122% (2011: 130%), dividend yield of 0% (2011: 0%), an expected option life of 3.6 years (2011: 3.6 years), and an annual risk-free interest rate of 2.93% (2011: 3.82%). The expected price volatility was derived by analysing the historic volatility of the Company's shares since listing on the ASX.

13. Deferred tax

	Consolidated		Parent	
	2012 NZ$'000	2011 NZ$'000	2012 NZ$'000	2011 NZ$'000
Deferred tax asset (liability)				
Amounts recognised in profit or loss				
Provisions and accruals	496	324	30	64
Property, plant and equipment	4	9	4	9
Intangible assets	(958)	(1,219)	25	(12)
Tax losses	22,317	21,209	17,796	16,831
	21,859	20,323	17,855	16,892
Unrecognised deferred tax assets	(21,859)	(20,323)	(17,855)	(16,892)
Deferred tax asset (liability)	-	-	-	-
Movements				
Deferred tax asset (liability) at the beginning of the year	-	-	-	-
Credited (charged) to the income statement (note 5)	1,486	430	963	646
Effect of change in tax rates	-	(1,186)	-	(1,160)
Exchange differences	50	(10)	-	-
Change in unrecognised deferred tax assets	(1,536)	766	(963)	514
Deferred tax asset (liability) at the end of the year	-	-	-	-

14. 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 2012 NZ$'000	Amount due to (from) Parent 2011 NZ$'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	26	22
Hamilton Pharmaceuticals Inc.	2 April 2004	Clinical research	100%	USA	778	742
Neuren Pharmaceuticals (Australia) Pty Ltd	9 November 2006	Dormant	100%	Australia	-	-
Perseis Therapeutics Limited	25 March 2009	Preclinical research	72.2%	NZ	673	180

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

15. Commitments and contingencies

(a) Operating leases
The following aggregate future non-cancellable minimum lease payments for premises have been committed to by the Company, but not recognised in the financial statements. The Company's premises commitment is for a four year and three month lease commencing May 2012, with no rights of renewal, and annual rental reviews throughout.

Consolidated and Parent	2012 NZ$'000	2011 NZ$'000
Not later than one year	83	111
Later than one year and not later than five years	218	-
Later than five years	-	-
	301	111

(b) Legal claims
The Company has not entered into any collaborative arrangements and has no other significant legal contingencies as at 31 December 2012.

(c) Capital commitments
The Company is not committed to the purchase of any property, plant or equipment as at 31 December 2012 (2011: nil).

16. 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		2012 NZ$'000	2011 NZ$'000
Directors'	- fees and other short term benefits	268	265
	- accrued fees waived	(159)	-
	- share option compensation	697	720
CEO and management	- short-term benefits	1,298	1,085
	- share option compensation	997	833
		3,101	2,903

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

(b) Subsidiaries
Interests in and amounts due from subsidiaries are set out in note 14. 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 2012 the Parent charged Perseis Therapeutics $45,600 (2011: $50,000) for monthly management, intellectual property and administrative services.

17. Events after balance date

As at the date of these financial statements there were no events arising since 31 December 2012 which require disclosure.

18. Financial instruments and risk management

(a) Categories of financial instruments

	Consolidated		Parent	
	2012	2011	2012	2011
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Financial assets				
Cash and cash equivalents	6,477	9,844	6,450	9,797
Trade receivables	14	24	11	24
Total financial assets (loans and receivables classification)	6,491	9,868	6,461	9,821
Financial liabilities				
Amortised cost:				
Trade and other payables	2,676	2,204	1,387	1,387
Total financial liabilities	2,676	2,204	1,387	1,387

(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 loss of $179,000 is included in results for the year ended 31 December 2012 (2011: $299,000 gain).

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

	Consolidated		Parent	
	2012	2011	2012	2011
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Assets				
US dollars	3,645	5,055	805	1,651
Australian dollars	3,643	4,241	3,643	4,241
UK pounds	1	2	1	2
Liabilities				
US dollars	1,658	1,202	548	460
Australian dollars	233	150	166	142
UK pounds	373	181	312	181

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	
	2012	2011	2012	2011
Decrease (increase) in loss after income tax	NZ$'000	NZ$'000	NZ$'000	NZ$'000
10% strengthening of NZ dollar against:				
US dollar	139	127	(23)	(108)
Australian dollar	(310)	(372)	(316)	(373)
UK pound	34	16	28	16
10% weakening of NZ dollar against:				
US dollar	(170)	(155)	29	132
Australian dollar	379	455	386	455
UK pound	(41)	(20)	(35)	(20)

Foreign currency denominated transactions occur consistently throughout the year. In the directors' 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.

The effective interest rates on financial assets are as follows:

	Consolidated		Parent	
	2012 NZ$'000	2011 NZ$'000	2012 NZ$'000	2011 NZ$'000
Financial assets				
Cash and cash equivalents				
New Zealand dollar cash deposits	2,796	4,666	2,796	4,666
New Zealand dollar interest rate	3.0%	3.1%	3.0%	3.1%
US dollar cash deposits	13	924	-	886
US dollar interest rate	0.1%	0.1%	0.1%	0.1%
Australian dollar cash deposits	3,616	4,216	3,616	4,216
Australian dollar interest rate	2.5%	3.6%	2.5%	3.6%

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

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

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

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

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

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

19. Going Concern Assumption

In the year ended 31 December 2012 the Group reported a net loss for the year of $6,422,000, and at year end had cash balances of $6,477,000. Whilst the Directors are continuing to monitor the Group's cash position and on an ongoing basis initiatives to ensure adequate funding continues to be available for the Group to meet its business objectives, they consider that the strategic plans of the Group may require additional financing within the next 12 months. The timing and terms of any such financing are presently unknown, however the Directors have a reasonable expectation that it would proceed successfully.

Notwithstanding this, the Directors' have concluded that the issue around a future fund raising is material. If no funds are raised before the cash balances have been exhausted, the Group may cease to be a going concern and the Group may be unable to continue in operational existence. Nevertheless after making enquiries, and considering the uncertainties described above, the Directors' have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing these financial statements. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

Independent Auditors' Report

to the shareholders of Neuren Pharmaceuticals Limited

Report on the Financial Statements

We have audited the financial statements of Neuren Pharmaceuticals Limited ("the Company") on pages 13 to 29, which comprise the statements of financial position as at 31 December 2012, the statements of comprehensive income and statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2012 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Other than in our capacity as auditors we have no relationship with, or interests in, Neuren Pharmaceuticals Limited or any of its subsidiaries.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 (9) 355 8000, F: +64 (9) 355 8001, www.pwc.com/nz

Opinion

In our opinion, the financial statements on pages 13 to 29:

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

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 31 December 2012, and their financial performance and cash flows for the year then ended.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 19 to the financial statements which indicates that the ability of the Group to fund its planned product development and operating expenditure is dependent upon the level of future capital raising. These conditions indicate the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2012:

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

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

Restriction on Distribution or Use

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

PricewaterhouseCoopers

Chartered Accountants, Auckland
27 March 2013

Neuren Pharmaceuticals Limited

Additional Information

Equity Securities Held by Directors as at 7 March 2013

	Interests in Ordinary Shares		Interests in Options	
Director	**Direct**	**Indirect**	**Direct**	**Indirect**
Robin Congreve	-	22,386,224	20,000,000(1)	-
Bruce Hancox	-	-	-	-
John Holaday	-	-	5,000,000(1)	-
Trevor Scott	-	33,388,252	20,000,000(1)	10,604,991
Richard Treagus	-	-	-	-
Doug Wilson	-	135,000	5,000,000(1)	-

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

Shareholding

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

The number of ordinary shareholdings held in less than marketable parcels at 7 March 2013 was 754, holding 4,134,449 ordinary shares.

The following information is presented based on share registry information processed up to and including 7 March 2013.

Distribution of Shareholders Analysis of numbers of ordinary shares by size of holding:	**Number of Shareholders**	**Number of Ordinary Shares**
1 – 1,000	162	28,696
1,001 – 5,000	264	1,002,280
5,001 – 10,000	246	2,082,728
10,001 – 100,000	1,046	49,066,461
100,001 and over	771	1,130,606,405
	2,489	1,182,786,570

Distribution of Optionholders Analysis of numbers of options by size of holding:	**Number of Optionholders**	**Number of Options**
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	-	-
10,001 – 100,000	-	-
100,001 and over	15	298,555,024
	15	298,555,024

Substantial Security Holders who have notified the Company as at 7 March 2013 are:	**Number of Ordinary Shares**
Langley Alexander Walker (through Auckland Trust Company Limited in its capacity as trustee)	228,322,986
National Nominees Ltd ACF Australian Ethical Smaller Companies Trust	68,335,436

There are no securities subject to escrow.

Neuren Pharmaceuticals Limited

Twenty Largest Holders of ordinary shares:	**Number of Ordinary Shares**	**% Holding**
Auckland Trust Company Limited <Second Pacific Master Superannuation Fund>	228,322,986	19.30
UBS Nominees Pty Ltd <TP00014 15 A/C>	131,034,524	11.08
National Nominees Limited	76,186,762	6.44
Essex Castle Limited	39,844,696	3.37
K One W One Limited	32,611,730	2.76
HSBC Custody Nominees (Australia) Limited	24,315,717	2.06
HSBC Custody Nominees (Australia) Limited-GSCO ECA	23,188,005	1.96
Roxtrus Pty Limited <Roxanne Dunkel No 2 A/C>	19,000,000	1.61
Centralo Limited	11,925,508	1.01
Citicorp Nominees Pty Limited	11,507,294	0.97
Oceania & Eastern Biotech Limited	10,283,956	0.87
BNP Paribas Noms Pty Ltd <DRP>	10,278,660	0.87
Mr Robert Albert Boas	10,160,806	0.86
Mr He Zhao	10,000,000	0.85
Mr Craig William Manners	8,600,000	0.73
Mr Mladen Marusic	8,537,000	0.72
Invia Custodian Pty Limited <Snowball Super Fund (1) A/C>	8,500,000	0.72
Auckland Trust Company Ltd <Second Pacific Master SF A/C>	8,230,852	0.70
Pfizer Inc	8,081,438	0.68
ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	7,731,257	0.65
	688,341,191	58.20

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.

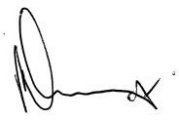
Corporations Act, Australia - Directors' declaration

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

1. The financial statements on pages 13 to 29 of Neuren and its subsidiaries for the year ended 31 December 2012 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 2012 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 2013.

On behalf of the Board



Dr Richard Treagus
Chairman

ANNUAL REPORT 2012

Neuren Pharmaceuticals Limited
ARBN 111 496 130
Level 1, 59 Wellington Street
Freemans Bay, Auckland
New Zealand

Tel: +64 9 3700 200
Email: enquiries@neurenpharma.com

www.neurenpharma.com