NeuroDiscovery

ABN 89 113 824 141

NEURODISCOVERY LIMITED

AND ITS CONTROLLED ENTITY

ANNUAL FINANCIAL REPORT

for the year ended 30 June 2009

CONTENTS

CORPORATE DIRECTORY

This Annual Report covers both NeuroDiscovery Limited as an individual entity and the Consolidated Entity comprising NeuroDiscovery Limited and its subsidiary. The Group's functional presentation currency is Australian Dollars ($AUD).

A description of the Group's operations and principal activities is included in the review of operations and activities in the Director's report on pages 4 to 18. The Director's report is not part of the Financial Report.

Directors
Dr Jonathan Mark Treherne, *Non-Executive Chairman*
Mr David McAuliffe, *Executive Director*
Mr Harry Karelis, *Non-Executive Director*

Company Secretary
Mr Morgan Barron

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ASX Code
NDL – Shares

LETTER TO SHAREHOLDERS

Dear Shareholder,

On behalf of the Board of Directors of NeuroDiscovery Limited (“NeuroDiscovery” or the “Company”), I am pleased to present the Annual Report of the Company.

As everyone will be fully aware it has been a challenging year for technology companies world-wide with the collapse of the financial markets in nearly every territory in the world. Fortunately for NeuroDiscovery, the financial crisis has not had a significant impact on the finances of the Company or the cash reserves due to prudent cash management, a reduction in spend on clinical development programmes and an increase in the revenues generated from our speciality service business.

The crisis in the financial markets should not distract shareholders from the underlying value, which has yet to be realised, in the Company’s credible pipeline of compounds that are under development for the treatment of various painful conditions.

During early 2008, we announced the results of a successful proof-of-concept Phase IIa study for NSL-101 and more recently filed an international patent for that product formulation. These results and the patent filing have now enabled us to enter into discussions with potential commercialisation partners.

The results of both the single and multiple ascending dose trials for NSL-043 were of excellent quality and have continued to increase the value of NSL-043, as a clinical-stage asset. During the year, a key European patent was granted and the Company is now undertaking international filings in major territories for commercialisation. Together with the mechanism-of-action studies currently being undertaken (at no cost to NeuroSolutions and its partner, Sosei Corporation), these advances could lead to a potential increase in the value of the project and allow for significantly more robust licensing and/or investment discussions.

As you will be aware from various announcements during the year, there is the potential that we may have the Company’s ownership in NSL-043 ultimately diluted below 50%. To that end, we have worked constructively and positively with Sosei to ensure that the potential dilution is minimised and I would personally like to extend my thanks to our collaboration partners at Sosei Group and we look forward to potentially progressing the programme forward via the introduction of a licensing or investment partner as soon as possible.

In parallel to its drug development programmes, the Company operates a successful contract service business through the provision of specialised electrophysiology assays to the international biopharmaceutical industry. Despite global restructuring in the sector and adverse exchange rate fluctuations, NeuroSolutions achieved sales of approximately A$2.3 million, an increase of 8% from the previous year. The contract service business continues to work with a number of the world’s largest multinational pharmaceutical companies and a number of these clients continue to sign significant, long-term contracts with the Company. This is a testament to the quality and depth of the scientific group in Warwick, which is evidenced by the recent signing of two contracts in May and August 2009 for a total of $A1.16 million with the same client.

NeuroDiscovery’s Board has been significantly restructured in accordance with a prudent cash management policy with Dr Iain Chessell, Dr Tony Evans and Mr John Hannaford all voluntarily resigning from the Board. I thank all three for their efforts during the year and also for their understanding of the Company’s need to preserve cash. Replacing these Directors, Mr Harry Karelis joined the Board as a representative of our largest shareholder, BioTech Capital Ltd. We welcome Harry onto the board and his depth of experience in the biotechnology field will be a significant asset to the Company moving forward.

More recently, Dr Chris Moyses resigned as Chief Executive Officer and I would like to thank Chris for all his efforts over the past year, during which period our contract service business has continued to report excellent results, while advancing our discovery and development pipeline. I am particularly pleased that Chris will continue to look for funding and or licensing opportunities for our neurology programmes.

LETTER TO SHAREHOLDERS (CONTINUED)

On behalf of the Board of NeuroDiscovery, I wish to take this opportunity to thank my fellow Directors, the Group's management, employees and shareholders for their contributions and ongoing support of the Company.

Yours sincerely,

Dr J Mark Treherne
Non-Executive Chairman

DIRECTORS' REPORT

Your Directors present their report on NeuroDiscovery and its controlled entity (together referred to as "the Consolidated Entity" or "Group") for the financial year ended 30 June 2009.

DIRECTORS

The names of the Directors in office during the financial year and until the date of this report are as follows. All Directors were in office for the entire period unless otherwise stated.

Names, Qualifications, Experience and Special Responsibilities

Dr J Mark Treherne B.Sc (Hons) MPhil PhD MIoD
Non-Executive Chairman

Qualifications and Experience
Dr Treherne joined NeuroSolutions as Non-Executive Chairman in March 2002 to help lead the development of NeuroSolutions as a successful neurology company providing specialist research services. Dr Treherne has been actively involved in the biopharmaceutical industry for over 25 years and is well known across Europe for his fund-raising and business development expertise. Dr Treherne was a co-founder and Chief Executive of Cambridge Drug Discovery Limited (CDD), leading the acquisition of CDD for £28 million by AiM-listed BioFocus plc (BioFocus), where he then became a Commercial Director of BioFocus, driving significant growth of its profitable services business that reached a valuation of £100 million on AIM.

Since leaving his full-time position at BioFocus plc in February 2002 to remain on the Board as a Non-Executive Director, Dr Treherne has now served on the Boards of over 10 private and public biopharmaceutical companies: he is currently Chairman of Cyclofluidic Limited and Bioceros BV and also on the Boards of Domain Therapeutics SA, Population Genetics Technologies Limited, Senexis Limited and Xention Limited. Dr Treherne has now helped raise more than £100 million for various biopharmaceutical businesses around the world. Dr Treherne was also formerly Chairman of ERBI Limited, which is a not-for-profit organisation that represents the biotechnology companies based around Cambridge in the East of England, which is Europe's most established biotechnology cluster.

Dr Treherne initially trained as a neuroscientist and electrophysiologist at Cambridge University, before teaching at the University of Basel, Switzerland, and previously led the Neurodegeneration research group at Pfizer's main European research facility at Sandwich, UK, until 1997.

Interest in Shares and Options
Dr Treherne's interest consists of 2,808,457 ordinary shares of NeuroDiscovery Limited and options to acquire 500,000 ordinary shares.

Special Responsibilities
Member of the Remuneration and Nomination committees

Mr David McAuliffe B.Pharm LLB (Hons)
Executive Director

Qualifications and Experience
Mr McAuliffe is the founder of NeuroDiscovery and has been a Director since establishment. Mr McAuliffe has over fourteen years experience in the international Life Science sector. During this time he has been involved in numerous capital raisings and technology in-licensing exercises. Mr McAuliffe has an Honours Degree in Law and a Bachelor of Pharmacy degree and is The President of the Dyslexia - Speld Foundation WA (Inc).

During the past three years Mr McAuliffe has held the following ASX listed company directorships; Incitive Limited.

DIRECTORS' REPORT (CONTINUED)

Interest in Shares and Options
Mr McAuliffe's interest consists of 2,946,612 ordinary shares of NeuroDiscovery Limited and options to acquire 500,000 ordinary shares.

Special Responsibilities
Member of the Audit and Nomination Committees

Mr Harry Karelis B.Sc (Hons) MBA CFA F.Fin FAICD
Non-Executive Director (appointed 9 June 2009)

Qualifications and Experience
Mr Karelis graduated from The University of Western Australia with Bachelors and Honours in Science majoring in Biochemistry and Microbiology as well as a Masters in Business Administration. He is a Fellow of the Financial Services Institute of Australia, a Fellow of the Australian Institute of Company Directors and has qualified as a Chartered Financial Analyst (CFA) from the CFA Institute in the United States.

Mr Karelis is the founder and Managing Director of Titan BioVentures Management Pty Ltd which is the investment manager of BioTech Capital Ltd. Mr Karelis has led investments in drug discovery, regenerative medicine, medical devices and several other technology platform areas.

Prior to establishing BioTech Capital Mr Karelis worked in the financial services industry with roles in financial analysis and funds management both in Australia and overseas.

During the past three years he has held the following ASX listed company directorships; Biotech Capital Ltd, Phylogica Ltd.

Special Responsibilities
Recently appointed member of the Audit and Remuneration Committees

Interest in Shares and Options
Mr Karelis's interest consists of 10,023,530 ordinary shares of NeuroDiscovery Limited.

Dr Iain Chessell BSc, PhD
Non-Executive Director (appointed 8 April 2008, resigned 15 June 2009)

Dr Tony Evans
Non-Executive Director (appointed 30 August 2007, resigned 10 June 2009)

Mr John Hannaford B.Com CA F.Fin
Non-Executive Director (appointed 14 April 2005, resigned 31 July 2009)

Dr Chris Moyses MRCP, FPPM, DM
Chief Executive Officer (appointed 1 September 2008, resigned 20 August 2009)

DIRECTORS' REPORT (CONTINUED)

COMPANY SECRETARY

The following persons held the position of Company Secretary during the financial year:

Mr Morgan Barron B.Com CA F.Fin

Qualifications and Experience
Morgan Barron is a qualified Chartered Accountant who has worked in various corporate roles both in Australia and Europe. Whilst at Ventnor Capital Pty Ltd he has been involved in a number of company secretarial functions and ASX junior transactions.

Prior to joining Ventnor Capital Pty Ltd, Mr Barron was a Financial Analyst (M+A) at Macmahon Holdings Ltd providing strategic advice, recommendations and execution of a number of key acquisitions in the Mining and Civil Contracting markets. Mr Barron holds a Bachelor of Commerce Degree, is an Associate of the Financial Services Institute of Australasia, and an Associate of the Institute of Chartered Accountants in Australia. After graduating from UWA he started his career at Horwath and then KPMG. Once qualified, he made the move to London where he gained experience in Banking and European acquisitions for a US listed Investment bank, providing him with a strong commercial, financial and management background.

Ms Narelle Warren (resigned 26 September 2008)

PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year were:

- Development of compounds for the treatment of pain, in particular neuropathic pain; and
- Provision of specialised electrophysiology services to the biopharmaceutical industry.

No significant change in the nature of these activities occurred during the financial year.

OPERATING RESULTS

The result of the Company for the year ended 30 June 2009 was a loss of $2,419,283. The net loss of the Company predominantly related to a provision for non-recovery of loans to the Company's subsidiary and administration and compliance costs of an ASX listed company.

The consolidated loss after tax for the Group for the year ended 30 June 2009 was $440,178. The net loss of the Group predominantly related to the administration and compliance costs of an ASX listed company.

DIVIDENDS PAID OR RECOMMENDED

No dividend has been paid or recommended by the Directors since the commencement of the financial year.

DIRECTORS' REPORT (CONTINUED)

REVIEW OF OPERATIONS

Group Overview

NeuroDiscovery Limited is a speciality neuroscience services provider and drug development company which owns 100% of NeuroSolutions Limited. NeuroSolutions is a service company, which has applied its broad spectrum expertise and drug discovery platforms to become a leading provider of specialised electrophysiological assays to the biopharmaceutical industry. Electrophysiology is a specialised technique which is used to record electrical activity in membranes, cells or tissues. NeuroSolutions' current clients include many established pharmaceutical and biotechnology companies.

In parallel to running its service business, NeuroSolutions is also exploiting its in-house technologies and expertise for its own internal R&D and has a mature pipeline of programmes for the treatment of pain.

During early 2008, NeuroSolutions successfully completed two Phase I trials for its development compound, NSL-043, in partnership with Sosei Group Corporation. Both of these trials reported a successful outcome, facilitating further development but due to financial constraints the programme has not entered into the next clinical stage of development. NeuroSolutions also completed a successful Phase II trial for NSL-101, filed a patent and the potential commercialisation of this asset has been discussed with some parties but as yet no firm commercialisation proposals have been received.

Drug Discovery and Development Pipeline in Pain

NeuroSolutions currently focuses on pain therapies for a number of reasons. First, NeuroSolutions recognises a significant unmet medical need for more effective pain relief. Despite a crippling toll on around 2% of the population (120 million people worldwide), and years of research, there is currently still no one drug of choice for treatment for neuropathic pain. Second, there are good commercial grounds for this strategy:

- The synergy between the contract services and drug discovery businesses gives NeuroDiscovery a considerable competitive advantage, and the expertise of NeuroSolutions' scientific team in pain is world renowned.
- The route to commercialisation is relatively expedient. Pain is straightforward to measure compared with the complexity of many clinical trials in neurology, such as those for Alzheimer's and Parkinson's diseases, or epilepsy.
- There is a large potential market. Recent forecasts predict a global market value of over US$5 billion for neuropathic pain drugs by 2010.

Although NeuroSolutions has focused its therapeutic pipeline of compounds for the treatment of pain conditions, the management has carefully balanced risk by selecting projects that have a complementary spectrum of proven safety in man, novelty, a defensible patent position and potential shorter time to commercialisation.

NSL-101

NeuroSolutions identified NSL-101 from UK-based Ampika Limited's database of medicinal plants as a natural product formulation that is effective in alleviating the symptoms of pain. Detailed electrophysiology studies demonstrated that a preparation of NSL-101 inhibits discharges from damaged nerves associated with pain. NeuroSolutions took full ownership of the compound in November 2006 via a worldwide exclusive licensing agreement with Ampika Limited.

NSL-101 is a natural product formulation that NeuroSolutions intends to out-license as an over-the-counter product for the treatment of pain. As such, this project has potentially the shortest path to commercialisation.

DIRECTORS' REPORT (CONTINUED)

REVIEW OF OPERATIONS (CONTINUED)

Two Phase II trials of NSL-101 were completed in 2008, both to appropriate clinical trial standards. The compound was effective in the first trial, where it prevented pain associated with root planning and scaling, a dental procedure used to combat periodontitis. In the second clinical trial, for the treatment of post-operative pain caused by the extraction of an impacted third molar ("wisdom tooth"), NeuroSolutions was unable to measure NSL-101's efficacy due to unexpected confounding factors.

The results from the periodontitis trial demonstrate that NSL-101 is an effective analgesic, and this proof of concept significantly enhances its asset value. The study compared the analgesic efficacy and safety of NSL-101 gel with a local anaesthetic, which is the gold standard for pain prevention during scaling and root planning. This procedure is used to treat moderate to severe periodontitis-gum inflammation caused by the build-up of plaque bacteria on the teeth and is typically associated with significant pain. NSL-101 was highly effective and well tolerated. It was found to be equally effective as the local anaesthetic gel but with no adverse effects.

The wisdom tooth extraction study was unable to evaluate the analgesic efficacy of NSL-101 compared with placebo. The study was designed to ensure that patients would not experience severe pain at any time. Thus for ethical reasons, a conservative estimate of the local anaesthetic's duration was used. However, the anaesthetic lasted significantly longer than expected and this masked any analgesic effects of NSL-101, compromising the study.

The proof of concept achieved with NeuroSolutions's Phase II trial of NSL-101 in periodontitis has led to a new patent filing. This helps to protect NeuroSolutions's intellectual property position and will form an important part of NeuroSolutions's data package as it potentially goes forward into licensing negotiations.

NSL-043

NSL-043 is being developed as an oral product in the treatment of neuropathic pain, under a Collaboration Agreement and Development Plan with Sosei Group Corporation (Sosei), a listed Japanese biotechnology company.

This compound was previously in development by another company in the 1990s as a treatment for a "non-pain" condition. It passed all toxicology screens and demonstrated suitability for oral use. The compound was progressed to a late clinical stage in Japan before development was ceased due to a lack of clear efficacy. As such, NeuroDiscovery considers it to have a reduced risk profile in terms of safety and tolerability.

Thanks to NeuroSolutions' neurology drug screening and pre-clinical development expertise, NeuroSolutions recognised a new therapeutic potential for NSL-043. In pre-clinical studies using in-house screening platforms, NSL-043 demonstrated potential as an agent against neuropathic pain.

NSL-043 completed two Phase I clinical trials during early 2008. In the first trial, healthy participants were given a single, oral dose of between 10 and 2000mg. The highest dose, 2000mg, is five times more than has previously been tested in humans, but NSL-043 was nonetheless well tolerated at all doses, with no safety issues. The second trial tested the safety and tolerability of repeated doses. Healthy participants received 100-2000mg of NSL-043 twice daily for ten days. There were again no safety issues, although some participants on the highest dose experienced mild effects such as tingling and reduced skin sensitivity, which may be consistent with the therapeutic use of NSL-043.

The primary goal of these Phase I clinical trials was to establish the safety and tolerability of NSL-043 in humans, which they did successfully. There was also an important secondary goal that was met. NeuroSolutions was able to measure the amount of NSL-043 in the blood of participants over time. This pharmacokinetic information is vital for the design of good Phase II efficacy trials. It is particularly important that the concentration of NSL-043 found in participants should overlap with the concentrations that are effective in pre-clinical models of neuropathic pain. This was observed, representing a mitigation of one of the major risks in clinical development.

DIRECTORS' REPORT (CONTINUED)

REVIEW OF OPERATIONS (CONTINUED)

In addition during November 2008 NeuroSolutions presented further pivotal pre-clinical efficacy data for NSL-043. The data presented demonstrated that NSL-043 reverses static allodynia and inhibits spontaneous ectopic discharge in the streptozotocin-induced diabetic neuropathy and chronic constriction injury models of neuropathic hypersensitivity, indicating that this compound may be effective in treating neuropathic pain in man.

Due to the excellent results in the pre-clinical models and Phase I trials, NeuroSolutions now has the opportunity to explore potential licensing arrangements. NSL-043 could be licensed on the basis of the Phase I results or NeuroSolutions could move the product into a Phase II trial with additional funding and seek a license once that trial is complete. At this stage both opportunities are being explored.

Due to on-going funding issues and the need to preserve the Group's cash reserves, in December 2008 NeuroSolutions served notice to its joint development partner, Sosei, that at this time, NeuroSolutions is unable to contribute to its share of the outstanding costs of development of NSL-043 for the period January to September 2008.

Under the Collaboration Agreement with Sosei in the event that NeuroSolutions is unable to contribute to costs of development and has notified this to Sosei in writing (or it has failed to contribute to its share of the costs) then NeuroSolutions share of the ownership of the intellectual property and its right to receive 50% of the revenue will be reduced after taking into account the total costs that NeuroSolutions has contributed at the time the first revenue is received, unless otherwise agreed by the management committee of NSL-043.

Importantly, initially NeuroSolutions had a period of six months from the date of serving notice in which to raise additional funds to enable it to contribute to its outstanding payments and contribute to its 50% share of the costs set out in agreed milestone budgets to achieve the next milestone or continue the development programme for the next twelve months. During May and August 2009 NeuroSolutions extended that obligation for repayment by three additional months each time and the obligation now crystallizes on 12 December 2009, equating now to a 12 month period from serving the initial notice in December 2008.

NeuroSolutions met with Sosei in August 2009 to discuss the strategy for the development of NSL-043. At this meeting the potential dilution of NeuroSolutions ownership of the intellectual property, upon failure to meet its obligations at the end of the twelve month period as mentioned above, was discussed. Under the current agreement NeuroSolutions's ownership in the project may fall to 33.5%. If NeuroSolutions is unable to repay the outstanding current liability and any other liability that may fall within the twelve month period in order to restore its 50% ownership in the project then NeuroSolutions's ownership may fall further, but not significantly.

One successfully concluded strategy to progress development was the recent signing of a material transfer agreement with an independent third party who will over the next three months conduct mechanism of action studies on NSL-043 at no cost to NeuroSolutions and Sosei. The Board feels this zero cost development strategy could add significant value to the project and once completed may lead to further more robust licensing and or funding discussions in Europe.

Importantly during the year the key patent for NSL-043 was granted in Europe and has now entered into the national phase in key territories. Additional patents could be filed around the mechanism-of-action if unique.

NeuroSolutions and Sosei own all the rights for NSL-043 for territories outside Japan and Asia. NeuroSolutions and Sosei will receive royalties for sales in Japan and Asia.

DIRECTORS' REPORT (CONTINUED)

REVIEW OF OPERATIONS (CONTINUED)

NSL-105

NeuroSolutions is developing NSL-105 in a strategic 50:50 partnership with Cameleon Limited, having identified a therapeutic use for NSL-105 in the treatment of a variety of painful conditions. Initial pre-clinical safety testing of NSL-105 has given this novel compound a clean bill of health in terms of genotoxity (adverse effect on cellular DNA, often leading to cancer) and cardiotoxity (adverse effect on heart function).

Due to funding constraints, no further work has been undertaken on this compound during the year and it is anticipated no work will be conducted in the foreseeable future.

NSL-036

NSL-036 is a novel anti-inflammatory compound that was previously in pre-clinical development in Japan as a potential therapeutic agent for bronchial asthma. Development of this compound, which was found to be effective in several models of bronchoconstriction and airway hypersensitivity, ceased when the Japanese originator terminated all pharmaceutical research.

NeuroSolutions identified the potential utility of this compound for the treatment of neuropathic pain. This has been supported by in-house testing, with NSL-036 having been demonstrated to be effective in a model of neuropathic pain.

Due to funding constraints, no further work has been undertaken on this compound during the year by either NeuroSolutions or Sosei and it is anticipated no work will be conducted in the foreseeable future.

<u>Collaborations and Pipeline Expansion</u>

The Board of NeuroDiscovery continues to screen international businesses and technologies to bring additional revenues to the specialised services arm of NeuroSolutions, and to identify and acquire innovative products that are complementary to the Group's current drug development strategy. In addition, the Board continues to monitor expenditure closely and is strategically reviewing its asset portfolio with the view to potential licensing and or sale, if and when the Board thinks such a strategy is warranted and appropriate.

<u>NeuroSolutions' Specialist Services Business</u>

NeuroSolutions operates a contract research services business, applying its broad expertise and drug discovery platforms in the provision of specialised electrophysiology assays to the biopharmaceutical industry. Electrophysiology is a specialised technique that is used to record electrical activity in biological systems.

The services business provides support to and increases the efficiency of many aspects of drug discovery. NeuroSolutions focuses in particular on neurological conditions, helping clients to identify specific drug candidates and/or investigate a drug's mechanism-of-action, and subsequently aiding in assay development.

NeuroSolutions has established strong relationships with existing clients and a reputation for excellent service in the biopharmaceutical industry. NeuroSolutions maintains a strong presence at international meetings, such as the Society for NeuroScience in Washington DC, USA in November 2008. These factors, as well as the expansion of the client base during the year, have contributed to the continued solid growth of the services business.

Over the course of the year several deals and collaborations have been signed. These include a 12-month, A$540,000 deal with a major, US-based pharmaceutical company and more recently the signing of the largest service contract in NeuroSolutions's history, a twelve month A$620,000 contract with the same group.

DIRECTORS' REPORT (CONTINUED)

FINANCIAL POSITION

Liquidity and Capital Resources

The consolidated cash flow statement shows that cash and cash equivalents at year ending 30 June 2009 was $1,395,072 (2008: $1,745,663).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

No significant changes in the Group's state of affairs occurred during the financial year.

AFTER BALANCE DATE EVENTS

On 6 August 2009, NeuroDiscovery announced its 100% subsidiary NeuroSolutions had entered into a specialist services agreement with a major international pharmaceutical company. The contract, the largest in NeuroSolutions's eight year history, is valued at approximately £310,000 (approximately A$620,000) and is expected to take around twelve months to complete.

Under the terms of the agreement, NeuroSolutions will use its specialist pharmacology and electrophysiology expertise to evaluate the client's proprietary compounds.

On 6 August 2009 NeuroDiscovery also announced Sosei and NeuroSolutions have agreed to another three month extension on the collaboration agreement expiring 11 December 2009.

On 20 August 2009 Dr Chris Moyses resigned from the position of Chief Executive Officer and stepped down from the board on the same date. Dr Moyses will continue be employed by NeuroSolutions until the end of his one month notice and will cease employment on 20 September 2009.

On 31 July 2009 Mr John Hannaford resigned from the position of Non-Executive Director.

No other significant events occurred after balance date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Directors are hopeful the 2009/2010 year will see an increase in revenue and profitability of the specialist services business, R&D programmes progress into clinical trials if investment can be secured to do so and additional commercialisation opportunities are explored.

ENVIRONMENTAL ISSUES

The Directors are mindful of the regulatory regime in relation to the impact of the organisational activities on the environment.

There have been no known breaches by the Group during the financial year.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for Directors and Key Management Personnel of NeuroDiscovery Limited.

Remuneration Policy

The performance of the Group depends upon the quality of its Directors and Key Management Personnel.

The NeuroDiscovery broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Remuneration Committee and Structure

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the Executive Directors and the senior management team.

The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to the relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Key Management Personnel. Such employees are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of Executive Directors' and Key Management Personnels' emoluments to the Group's financial and operational performance. All Directors and Key Management have the opportunity to qualify for participation in the Employee Share Option Plan which currently provides incentives where specified criteria are met including criteria relating to profitability, cash flow and share price growth performance.

In addition, all Directors and Key Management Personnel may be entitled to annual bonuses payable upon the achievement of annual corporate or profitability measures.

The Group seeks to emphasise payment for results through providing various cash bonus reward schemes, specifically the incorporation of incentive payments based on achievement of approved targets. Bonuses paid in the comparative period were based on these approved targets.

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive remuneration is separate and distinct.

Employment Contracts

The Group enters into Employment Contracts with all Executive Directors and Key Management Personnel on commercial terms. The contracts can be terminated by the Company in accordance with the stipulated terms and conditions of each individual contract.

The directors of NeuroDiscovery and their positions held are as follows:

- Dr J Mark Treherne Non-Executive Chairman
- Dr Chris Moyses Chief Executive Officer (appointed 1 September 2008, resigned 20 August 2009)
- Dr Iain Chessell Non-Executive Director (resigned 15 June 2009)
- Mr David McAuliffe Executive Director
- Mr John Hannaford Non-Executive Director (resigned 31 July 2009)
- Dr Tony Evans Non-Executive Director (appointed 30 August 2007, resigned 10 June 2009)
- Mr Harry Karelis Non-Executive Director (appointed 9 June 2009)

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Other Key Management Personnel include:

- Prof. David Spanswick Chief Scientific Officer

The employment contract stipulates a range of resignation periods. NeuroSolutions may terminate employment contracts without cause by providing one month written notice or making payment in lieu of notice, based on the individual's annual salary component together with redundancy payment. Termination payments are generally not payable on dismissal for serious misconduct. In the instance of serious misconduct NeuroSolutions can terminate employment at any time. Any options not exercised before or on the date of termination will lapse.

Chief Executive Officer Employment Service Contract

NeuroSolutions entered into an employment service contract with Dr Chris Moyses. The main details of the contract have been outlined below:

- The employee was employed as Group Chief Executive effective 29 September 2008.
- The employee will be paid at the rate of £90,000 per annum less tax.
- The agreement is for an initial period of six months subject to earlier termination clauses. Following the initial term, this agreement will continue but may be terminated by either party giving one month written notice, with such notice not to be given during the initial term.

Principles Used to Determine the Nature and Amount of Remuneration (Audited)

Senior Manager and Executive Director Remuneration

Objective

The Group aims to reward Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- Reward Executives for Group and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of Executives with those of shareholders;
- Link reward with the strategic goals and performance of the Group; and
- Ensure total remuneration is competitive by market standards.

Structure

Executive Directors are contracted to the Group either on a consultancy basis with remuneration and terms stipulated in individual consultancy arrangements or pursuant to an employment contract with remuneration and terms stipulated in individual employment agreements.

Company Performance

The table below shows the gross revenue, losses and earnings per share for the last three years for the Group.

	2007 $	2008 $	2009 $
Revenue	1,851,160	2,190,396	2,365,011
Net Loss	(1,674,138)	(2,211,265)	(440,178)
Earnings/(loss) per share (cents per share)	(4.36)	(3.92)	(0.77)

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Details of Directors and Executives Remuneration (Audited)

		Primary			Post Employment		Equity		
		Salary & Fees	Cash Bonus	Non Monetary	Superannuation Pensions	Retirement Benefits	Shares & Options	Total	Performance Related
Directors		$	$	$	$	$	$	$	%
Dr J M Treherne*	2009	54,996	-	-	-	-	-	54,996	-
	2008	53,733	-	4,292	-	-	-	58,025	-
Dr I Chessell	2009	99,304	-	-	-	-	-	99,304	-
	2008	52,956	-	4,292	-	-	102,177	159,425	64.09
Mr D McAuliffe	2009	50,600	-	-	-	-	-	50,600	-
	2008	66,000	45,000	4,292	-	-	-	115,292	-
Mr J Hannaford*	2009	30,000	-	-	-	-	-	30,000	-
	2008	30,000	-	4,292	-	-	-	34,292	-
Dr T Evans	2009	26,063	-	-	2,346	-	-	28,409	-
	2008	22,940	-	3,430	2,060	-	2,263	30,693	7.37
Dr Chris Moyses	2009	165,040	-	-	-	-	-	165,040	-
	2008	-	-	-	-	-	-	-	-
Mr H Karelis	2009	1,833	-	-	-	-	-	1,833	-
	2008	-	-	-	-	-	-	-	-
Mr A King	2009	-	-	-	-	-	-	-	-
	2008	5,000	-	859	-	-	-	5,859	-
Total Directors	**2009**	**427,836**	**-**	**-**	**2,346**	-	**-**	**430,182**	
	2008	**230,629**	**45,000**	**21,457**	**2,060**	-	**104,440**	**403,586**	
Other Key Management Personnel									
Prof. D Spanswick	2009	119,099	-	-	-	-	-	119,099	-
	2008	93,557	-	4,292	-	-	-	97,849	-

* During the year the Group made payments to Director related entities for services rendered on behalf of the Group, as detailed in Note 6.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Details of Equity-based Remuneration for the year ended 30 June 2009.

No options were issued to Directors or Key Management Personnel during the financial year.

During the comparative financial year additional options were granted by either shareholder approval or under the Employee Share Plan (ESOP) to certain Directors and Key Management Personnel as disclosed below. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity. For further details of options issued including terms and conditions, service and performance criteria that must be met, refer to Note 15.

				Terms & Conditions			
	Vested No.	Granted No.	Grant Date	Value per option at grant date $	Exercise price per share $	Vesting Date	Expiry Date
Director							
Dr Tony Evans	150,000	150,000	22-11-07	0.0623	0.25	22-11-08	30-11-10
Dr Iain Chessell	-	1,500,000	04-04-08	0.0324	0.18	04-10-08	04-10-12
Dr Iain Chessell	-	1,500,000	04-04-08	0.0273	0.24	04-10-09	04-10-13
Dr Iain Chessell	-	1,500,000	04-04-08	0.0189	0.40	04-10-10	04-10-14
	150,000	4,650,000					

Options issued to Dr Chessell were cancelled in September 2008 before any vesting period had been completed.

During the comparative financial year shares were issued by shareholder approval to a Director as disclosed below.

Director	No. of shares	Issue Date	Issue price per share $	Terms & Conditions
Dr Iain Chessell	375,000	04-04-08	0.20	In the event Dr Chessell does not complete 12 months continuous employment the cost of shares at issue date $75,000 plus interest will be repayable

END OF REMUNERATION REPORT

DIRECTORS' REPORT (CONTINUED)

MEETINGS OF DIRECTORS

During the financial year, 14 meetings of Directors, 2 meeting of the Audit Committee and 3 meetings of the Remuneration Committee were held. Attendances by each Director during the year were as follows:

	Board Meetings		Audit Committee		Remuneration Committee	
Director	**Number eligible to attend**	**Number attended**	**Number eligible to attend**	**Number attended**	**Number eligible to attend**	**Number attended**
Dr J Mark Treherne	14	13	1	1	3	3
Dr Iain Chessell	13	12	-	-	1	1
Mr David McAuliffe	14	14	2	2	-	-
Mr John Hannaford	14	13	2	2	3	3
Dr Tony Evans	13	12	2	2	3	2
Dr Chris Moyses	12	12	-	-	-	-
Mr Harry Karelis	2	2	-	-	-	-

COMMITTEE MEMBERSHIP

Members who have acted on the committees of the Board during the financial year are:

Audit Committee	Remuneration Committee	Nomination Committee
Mr David McAuliffe	Dr J Mark Treherne	Dr J Mark Treherne
Mr John Hannaford	Mr John Hannaford	Mr David McAuliffe
	Dr Tony Evans	

INDEMNIFYING OFFICERS OR AUDITOR

During the financial year the Company has paid insurance premiums of $17,785 (2008: $25,749) to indemnify all Directors and Executive Officers of the Company, against liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors or Officers of the Company, except where the liability arises out of conduct involving a lack of good faith.

The contract stipulates that the Company will insure Directors or Officers against costs incurred in defending proceedings for conduct involving:

(a) Wilful breach of duty; or
(b) A contravention of Section 182 or 183 of the Corporations Act, as permitted by section 199B of the Corporations Act 2001.

DIRECTORS' REPORT (CONTINUED)

OPTIONS

At the date of this report there were 3,992,255 unissued ordinary shares under option (3,992,255 at reporting date). Refer to Note 15, of the financial statements for further details of the options outstanding.

Option holders do not have the right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

Grant Date	Details	Date of Expiry	Exercise Price $	Number Under Option
At the beginning of the reporting period				9,492,255
30-09-08	Options cancelled	04-10-12	0.18	(1,500,000)
30-09-08	Options cancelled	04-10-13	0.24	(1,500,000)
30-09-08	Options cancelled	04-10-14	0.40	(1,500,000)
18-05-05	Options expired	30-06-09	0.20	(1,000,000)
				3,992,255

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and APES 110 Code of Ethics for Professional Accountants.

No fees for non-audit services were paid to the external auditors during the year ended 30 June 2009 (2008: Nil).

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of NeuroDiscovery support and have adhered to the principles of corporate governance.

All best practice recommendations of the ASX Corporate Governance Council where practicable have been applied for the financial year ended 30 June 2009.

DIRECTORS' REPORT (CONTINUED)

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 19.

Signed in accordance with a resolution of the Board of Directors.

DAVID MCAULIFFE
EXECUTIVE DIRECTOR

Perth, Western Australia, 17 September 2009

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of NeuroDiscovery Limited (the company) and its Controlled Entity (the consolidated entity) for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

WHK HORWATH PERTH AUDIT PARTNERSHIP

SEAN MCGURK
Principal

Perth, WA

Dated this 17th day of September 2009

INCOME STATEMENT

For the Year Ending 30 June 2009

		Consolidated		Parent Entity	
			Restated		
		2009	2008	2009	2008
	Note	$	$	$	$
Rendering of services		2,302,907	2,034,055	-	-
Finance income	4	62,104	156,341	61,502	142,384
Revenue from continuing operations		2,365,011	2,190,396	61,502	142,384
Cost of sales		(1,459,270)	(1,085,750)	-	-
Gross Profit		**905,741**	**1,104,646**	**61,502**	**142,384**
Other income		-	29,813	-	-
Research and development expenses		(247,381)	(2,218,891)	-	-
Corporate and administrative expenses		(1,115,810)	(1,551,865)	(480,785)	(742,938)
Impairment of intangible assets	21	(366,300)	-	-	-
Provision for impairment of loans receivable	10	-	-	(2,000,000)	-
Unrealised foreign exchange (loss)/gain		(62,729)	244,258	-	-
Loss before income tax		(886,479)	(2,392,039)	(2,419,283)	(600,554)
Income tax benefit	5	446,301	180,774	-	-
Loss attributable to members of the parent		(440,178)	(2,211,265)	(2,419,283)	(600,554)
(Loss) per Share					
Basic and diluted (loss) per share (cents per share)	8	(0.77)	(3.92)		

The above income statements should be read in conjunction with the accompanying notes.

BALANCE SHEET
As at 30 June 2009

	Note	Consolidated		Parent Entity	
			Restated		
		2009	2008	2009	2008
		$	$	$	$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	1,395,072	1,745,663	1,161,178	1,711,546
Trade and other receivables	10	498,630	534,447	8,251	10,939
Other current assets		94,675	15,470	17,970	1,834
TOTAL CURRENT ASSETS		1,988,377	2,295,580	1,187,399	1,724,319
NON-CURRENT ASSETS					
Financial assets	11	-	-	3,218,572	5,628,773
Loans to subsidiary	10	-	-	642,162	-
Plant and equipment	13	254,488	519,949	-	-
Intangible assets	14	2,985,119	3,351,419	-	-
TOTAL NON-CURRENT ASSETS		3,239,607	3,871,368	3,860,734	5,628,773
TOTAL ASSETS		5,227,984	6,166,948	5,048,133	7,353,092
CURRENT LIABILITIES					
Trade and other payables	16	470,912	789,701	83,347	48,130
Interest-bearing loans and borrowings	17	-	148,863	-	-
TOTAL CURRENT LIABILITIES		470,912	938,564	83,347	48,130
NON-CURRENT LIABILITIES					
Deferred tax liability	5	475,019	585,260	-	-
TOTAL NON-CURRENT LIABILITIES		475,019	585,260	-	-
TOTAL LIABILITIES		945,931	1,523,824	83,347	48,130
NET ASSETS		4,282,053	4,643,124	4,964,786	7,304,962
EQUITY					
Issued capital	18	8,629,515	8,508,340	8,629,515	8,508,340
Reserves	19	132,805	174,873	132,805	174,873
Accumulated losses		(4,480,267)	(4,040,089)	(3,797,534)	(1,378,251)
TOTAL EQUITY		4,282,053	4,643,124	4,964,786	7,304,962

The above balance sheets should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 30 June 2009

	Note	Issued Capital $	Accumulated Losses $	Reserves $	Total Equity $
Consolidated					
At 30 June 2008 as previously reported		8,508,340	(4,596,123)	174,873	4,087,090
Prior year error	26	-	556,034	-	556,034
Restated balance at 30 June 2008		8,508,340	(4,040,089)	174,873	4,643,124
Loss for the year		-	(440,178)	-	(440,178)
Cost of share-based payments		-	-	79,107	79,107
Options cancelled and expired during the period		121,175	-	(121,175)	-
At 30 June 2009		8,629,515	(4,480,267)	132,805	4,282,053
Parent Entity					
At 30 June 2008		8,508,340	(1,378,251)	174,873	7,304,962
Loss for the year		-	(2,419,283)	-	(2,419,283)
Cost of share-based payments		-	-	79,107	79,107
Options cancelled and expired during the period		121,175	-	(121,175)	-
At 30 June 2009At 30 June 2009		8,629,515	(3,797,534)	132,805	4,964,786

	Issued Capital $	Accumulated Losses $	Reserves $	Total Equity $
Consolidated				
At 30 June 2007	6,365,633	(1,828,824)	142,867	4,679,676
Loss for the year	-	(2,211,265)	-	(2,211,265)
Issue of share capital, net of transaction costs	2,142,707	-	-	2,142,707
Cost of share-based payments	-	-	32,006	32,006
At 30 June 2008	8,508,340	(4,040,089)	174,873	4,643,124
Parent Entity				
At 30 June 2007	6,365,633	(777,697)	142,867	5,730,803
Loss for the year	-	(600,554)	-	(600,554)
Issue of share capital, net of transaction costs	2,142,707	-	-	2,142,707
Cost of share-based payments	-	-	32,006	32,006
At 30 June 2008	8,508,340	(1,378,251)	174,873	7,304,962

The above statement of changes in equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

For the Year Ended 30 June 2009

		Consolidated		Parent Entity	
		2009	2008	2009	2008
	Note	$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		2,279,400	2,081,666	-	-
Payments to suppliers and employees		(2,775,799)	(4,635,885)	(379,909)	(558,017)
R&D tax rebate received		330,386	217,631	-	-
Interest received		62,039	156,341	61,502	142,384
Net cash used in operating activities	9	(103,974)	(2,180,247)	(318,407)	(415,633)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of plant and equipment		(67,344)	(35,226)	-	-
Net cash used in investing activities		(67,344)	(35,226)	-	-
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	2,332,100	-	2,332,100
Payment of share issue costs		-	(32,785)	-	(32,785)
Loan to subsidiary		-	-	(231,961)	(1,904,460)
Repayment of borrowings		(155,558)	(218,817)	-	-
Net cash provided by financing activities		(155,558)	2,080,498	(231,961)	394,855
Net decrease in cash held		(326,876)	(134,975)	(550,368)	(20,778)
Net foreign exchange differences		(23,715)	(20,763)	-	-
Cash at beginning of financial year		1,745,663	1,901,401	1,711,546	1,732,324
Cash at end of financial year		1,395,072	1,745,663	1,161,178	1,711,546

The above cash flow statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The financial report of NeuroDiscovery Limited for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the Directors on 17 September 2009. The financial report includes the consolidated financial statements and notes of NeuroDiscovery Limited ("NeuroDiscovery" or "the Company") and controlled entity NeuroSolutions Limited, and the separate financial statements and notes of NeuroDiscovery as an individual Company.

NeuroDiscovery is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange (ASX).

The nature of the operation and principal activities of the Group are described in Note 3.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general-purpose financial report of NeuroDiscovery Limited as an individual entity and of the Consolidated Entity consisting of NeuroDiscovery Limited and its controlled entity. The financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and the notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The carrying values of recognised assets and liabilities that are hedged with fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The financial report is presented in Australian dollars.

(a) Principles of Consolidation

A controlled entity is any entity over which NeuroDiscovery Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 12 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Principles of Consolidation (cont'd)

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

(b) Foreign Currency Transactions and Balances

Both the functional and presentation currency of NeuroDiscovery Limited is Australian dollars ($AUD).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Exchange differences arising on the translation of monetary items are recognised in the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiary (NeuroSolutions Limited) is British Pounds (GBP).

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of NeuroDiscovery Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the year. Retained earnings (accumulated losses) are translated at the exchange rates prevailing at the date of the transaction.

The exchange differences arising on the retranslation are taken directly to the Group's foreign currency translation reserve in the balance sheet.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Plant and equipment - over 3 to 15 years

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement in the cost of sales line item.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(d) Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

(e) Intangible Assets

Goodwill
Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Intellectual Property
Intellectual property assets relate to the separately identifiable intellectual property components acquired on the acquisition of subsidiaries. Intellectual property assets have an indefinite life and are tested annually for impairment and carried at cost less accumulated impairment losses.

Research and development costs
Research and development costs during the research phase of a project are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(g) Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(h) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits held at call with banks and other highly-liquid deposits with maturities of 3 months or less, net of outstanding bank overdrafts.

(i) Share-based Payment Transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The Employee Share Option Plan (ESOP) provides these benefits to employees. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a black and scholes model further details are given in note 15.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of NeuroDiscovery Limited (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Share-based Payment Transactions (cont'd)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (note 8).

(j) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(k) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services
Revenue from the provision of services is referenced to the stage of completion.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract.

Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Revenue (cont'd)

Interest
Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(l) Income Tax

The income tax expense (revenue) for the year comprises current income tax (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measures at the amounts expected to be paid to (recovered from) the relevant tax authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow statement on a gross basis except for the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(n) Financial Instruments

Initial recognition and measurement
Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except when the instrument is classified as 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement
Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount at which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

a. the amount at which the financial asset or financial liability is measured at initial recognition;
b. less principal repayments;
c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest rate method*; and
d. less any reduction for impairment.

The *effective interest rate method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts the estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Financial Instruments (cont'd)

The Group does not designate any interest in subsidiaries as being subject to the requirements of accounting standards specifically applicable to financial instruments.

Financial assets at fair value through profit and loss
A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments
These investments have fixed maturities or fixed and determinable payments, and it is the Group's intention to hold these investments to maturity. Any held-to-maturity investments held by Group are subsequently measured at amortised cost using the effective interest rate method.

Available for sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into the above categories, or they are designated as such by management. Available-for-sale financial assets are measured at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities
Non-derivative financial liabilities are subsequently measured at amortised cost.

(o) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and its value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Earnings per Share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element. Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

(i) costs of servicing equity (other than dividends) and preference share dividends;
(ii) the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have not been recognized as expenses; and
(iii) other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares,

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(q) Comparatives

Where required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(r) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key Estimates

(i) Impairment

The Group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Key Judgments

(i) Intellectual Property Assets

The Group capitalises intellectual property assets where it is considered likely to be recoverable through the eventual development and sale of commercially viable products relating to the use of the relevant intellectual property.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New Accounting Standards for Application in Future Periods

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, 118, 121, 127 & 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of this application. In this regard, its impact on the Group is unable to be determined. The following changes to accounting requirements are included:

  - Acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;
  - Contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;
  - A gain or loss of control will require the previous ownership interests to be remeasured to their fair value;
  - There shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group's policy);
  - Dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;
  - Impairment of investments in subsidiaries; joint ventures and associates shall be considered when a dividend is paid by the respective investee; and
  - Where there is, in substance, no change to Group interests, parent entities inserted above existing Groups shall measure the cost of its investments at the carrying value of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

  Under AASB 3, the Group has the option to record the parent entity's share of goodwill only, or the total goodwill of the parent and the non-controlling interest. The Group will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent entity's share of net assets acquired, or change its policy so goodwill recognised also reflects that of the non-controlling interest.

- AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, 6, 102, 107, 119, 127, 134, 136, 1023 & 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's Board for the purpose of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe that impairment losses will result from this change.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New Accounting Standards for Application in Future Periods (cont'd)

- AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

- AASB 2008-1: Amendments to Australian Accounting Standard – Share Based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or another party.

- AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SEGMENT INFORMATION

The Group's primary reporting format is business segments and its secondary format is geographical segments.

Business Segments

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The contract services business operates in the field of neurology providing specialist services to the biopharmaceutical sector. The research and development business is progressing a pipeline of potential compounds for the treatment of neuropathic pain.

Geographical Segments

The Group's geographical segments are Australia and the United Kingdom. Australian operations consist of administration and compliance costs of an ASX listed company, whilst operations in the United Kingdom consist of providing neurological services and research and development on compounds for the treatment of neuropathic pain.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SEGMENT INFORMATION (CONTINUED)

Primary Reporting - Business segments

	Contract Services		R&D		Total	
	2009	2008	2009	2008	2009	2008
	$	$	$	$	$	$
Revenue						
Sales to external customers	2,302,907	2,034,055	-	29,813	2,302,907	2,063,868
Other revenues from external customers	-	-	-	-	-	-
Total segment revenue	2,302,907	2,034,055	-	29,813	2,302,907	2,063,868
Unallocated revenue					62,104	156,341
Total consolidated revenue					2,365,011	2,220,209
Result						
Segment result	843,637	297,613	(247,381)	(2,089,068)	596,256	(1,791,455)
Unallocated revenue/(expenses)	-	-	-	-	(1,482,735)	(600,554)
Net loss before income tax					(886,479)	(2,392,009)
Income tax benefit					446,301	180,744
Net loss for the year					(440,178)	(2,211,265)
Assets and liabilities						
Segment assets	2,689,211	2,911,284	1,143,701	1,510,001	3,832,912	4,421,285
Unallocated assets	-	-	-	-	1,395,072	1,745,663
Total assets					5,227,984	6,166,948
Segment liabilities	(862,584)	(1,475,694)	-	-	(862,584)	(1,475,694)
Unallocated liabilities	-	-	-	-	(83,347)	(48,130)
Total liabilities					(945,931)	(1,523,824)
Other segment information						
Capital expenditure	(67,344)	(35,226)	-	-	(67,344)	(35,226)
Depreciation and amortisation	(332,805)	(284,513)	-	-	(332,805)	(284,513)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SEGMENT INFORMATION (CONTINUED)

Secondary Reporting - Geographical segments

The Group's geographical segments are determined by the location of the Group's assets and operations.

	Australia		United Kingdom		Total	
	2009	2008	2009	2008	2009	2008
	$	$	$	$	$	$
Revenue						
Sales to external customers	-	-	2,302,907	2,034,055	2,302,907	2,034,055
Other revenues from external customers	-	-	-	29,813	-	29,813
Revenue from operations	-	-	2,302,907	2,063,868	2,302,907	2,063,868
Unallocated revenue	-	-	-	-	62,104	156,341
Segment revenue	-	-	-	2,063,868	2,365,011	2,220,209
Other segment information						
Segment assets	26,218	12,771	4,040,588	4,408,514	4,066,806	4,421,285
Unallocated assets	-	-	-	-	1,161,178	1,745,663
Total assets	26,218	12,771	4,040,588	4,408,514	5,227,984	6,166,948
Capital expenditure	-	-	(67,344)	(35,226)	(67,344)	(35,226)

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, intangibles and plant and equipment, net of allowances and accumulated depreciation and amortisation. While most assets can be directly attributable to individual segments, unallocated assets consist of items that cannot be directly attributable.

Intersegment Transfers

Segment results may include revenues and expenses from intersegment transactions. These transactions are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE AND EXPENSES

		Consolidated		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
(a)	**Other income**				
	Research & development expenses recovery	-	153,417	-	-
		-	153,417	-	-
(b)	**Unrealised FX loss / (gain)**	62,729	(244,258)	-	-
(c)	**Finance income**				
	Bank interest	62,104	156,341	61,502	142,384
	Total finance income	62,104	156,341	61,502	142,384
(d)	**Depreciation included in income statement**				
	Included in cost of sales:				
	- Depreciation	100,768	92,444	-	-
	Included in corporate & administration:				
	- Depreciation	6,482	5,503	-	3,120
	- Amortisation	225,555	186,566	-	-
	Total depreciation and amortisation	332,805	284,513	-	3,120
(e)	**Lease payments & other expenses included in income statement**				
	Included in corporate & administration:				
	- Minimum lease payments: operating lease	71,430	61,162	14,068	12,000
(f)	**Employee benefits expense**				
	Wages & salaries	1,372,450	1,144,310	-	-
	Superannuation & pension costs	51,412	27,737	-	-
	Annual leave expense	24,254	28,274	-	-
	Expense of share-based payments	79,107	107,004	79,107	32,004
		1,527,223	1,307,325	79,107	32,004
(g)	**Research & development costs**				
	Research & development costs in the income statement, excluding employee benefits expense	196,651	1,773,601	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. INCOME TAX

Income Statement

	Consolidated		Parent Entity	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Accounting loss before income tax	(886,479)	(2,392,039)	(2,419,283)	(600,554)
At the statutory income tax rate of 30% (2008: 30%)	(265,944)	(717,612)	(725,785)	(180,166)
Expenditure not allowable for income tax purposes	133,775	118,351	23,885	64,118
Income not taxable	-	(43,590)	-	-
Depreciation	-	10,898	-	-
Provision for impairment of loans receivable	-	-	600,000	-
Foreign exchange adjustments	530	(3,829)	-	-
Overseas tax rate differential (UK)	-	10,897	-	-
Temporary differences not recognised	34,303	(11,809)	(7,682)	(11,809)
Australian tax losses not recognised	97,336	127,857	109,582	127,857
United Kingdom losses surrendered	-	508,837	-	-
R&D tax rebate	336,411	180,774	-	-
Movement in deferred tax balances	109,890	-	-	-
Income tax benefit	446,301	180,774	-	-
The applicable weighted average effective tax rates are as follows:			30%	30%

Deferred Income Tax

Deferred income tax at 30 June relates to the following:

	2009	**2008**
	$	**$**
Consolidated		
Deferred income tax liabilities		
Fixed assets	-	28,577
Intangible assets on business combinations	435,610	555,415
Gross deferred income tax liabilities	435,610	583,992
Deferred tax offset against deferred tax liability	-	(28,577)
Deferred tax liability	435,610	555,415

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. INCOME TAX (CONTINUED)

Deferred Income Tax

Deferred income tax at 30 June relates to the following:

	2009 $	2008 $
Consolidated		
Deferred income tax assets		
UK tax Losses available for offset against future taxable income	(724,544)	(736,790)
Australian tax Losses available for offset against future taxable income	(458,657)	(349,075)
Plant and equipment temporary differences	-	(644)
Accruals temporary difference	(12,000)	(5,841)
Share issue expenses	(17,827)	(37,509)
Gross deferred income tax assets	(1,213,028)	(1,129,859)
Deferred tax asset not recognised	1,213,028	1,101,282
	-	28,577
Parent Entity		
Deferred income tax assets		
Losses available for offset against future taxable income	(458,657)	(349,075)
Plant and equipment temporary differences	-	(644)
Accruals temporary difference	(12,000)	(5,841)
Share issue expenses	(17,827)	(37,509)
Gross deferred income tax assets	(488,484)	(393,069)
Deferred tax asset not recognised	(488,484)	(393,069)
	-	-

The Group has deferred tax assets in relation to tax losses arising in Australia of $458,657 (2008: $349,075) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose, subject to the company satisfying the necessary loss recoupment tests.

At 30 June 2009, there is no recognised or unrecognised deferred income tax liability (2008: $nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiary as the Group has no liability for additional taxation should such amounts be remitted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. DIRECTOR'S AND KEY MANAGEMENT PERSONNEL

a) Remuneration of Directors and Key Management Personnel

Refer to the Remuneration Report contained in the Directors Report for details of the remuneration paid or payable to each member of the Group's Key Management Personnel for the year ended 30 June 2009.

b) Option holdings

The number of options over ordinary shares in the Company, held during the financial year by the Directors and Executives of NeuroDiscovery Limited, including their personally related parties, are set out below.

2009	Balance at Start of Year	Granted During Year as Compensation	Exercised During Year	Other Changes During Year	Balance at End of Year	Vested and Exercisable at End of Year
Directors	**01-07-2008**				**30-06-2009**	
Dr J M Treherne	500,000	-	-	-	500,000	500,000
Dr I Chessell [(a)]	4,500,000	-	-	(4,500,000)	-	-
Mr D McAuliffe	500,000	-	-	-	500,000	500,000
Mr J Hannaford	150,000	-	-	-	150,000	150,000
Dr T Evans [(b)]	150,000	-	-	-	150,000	150,000
Dr C Moyses	-	-	-	-	-	-
Mr Harry Karelis	-	-	-	-	-	-
	5,800,000	-	-	(4,500,000)	1,300,000	1,300,000
Other Key Management Personnel						
Prof D Spanswick	-	-	-	-	-	-
	-	-	-	-	-	-

(a) Dr Chessell resigned from the board of NeuroDiscovery on 15 June 2009. Details of his options holdings are as at this date.

(b) Dr Evans resigned from the board of NeuroDiscovery on 10 June 2009. Details of his options holdings are as at this date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. DIRECTOR'S AND KEY MANAGEMENT PERSONNEL (CONTINUED)

2008 Directors	Balance at Start of Year 01-07-2007	Granted During Year as Compensation	Exercised During Year	Other Changes During Year	Balance at End of Year 30-06-2008	Vested and Exercisable at End of Year
Dr J M Treherne	500,000	-	-	-	500,000	-
Dr I Chessell	-	4,500,000	-	-	4,500,000	-
Mr D McAuliffe	500,000	-	-	-	500,000	-
Mr J Hannaford	150,000	-	-	-	150,000	75,000
Dr T Evans	-	150,000	-	-	150,000	-
	1,150,000	4,650,000	-	-	5,800,000	75,000
Other Key Management Personnel						
Prof D Spanswick	-	-	-	-	-	-
	-	-	-	-	-	-

c) Shareholdings

The numbers of shares in the Company held during the financial year by each Director and Executive of NeuroDiscovery Limited, including their personally related parties, are set out below.

Ordinary Shares 2009 Directors	Balance at Start of Year 01-07-2008	Granted During Year as Compensation	Issued During Year on Exercise of Options	Other Changes During the Year	Balance at End of Year 30-06-2009
Dr J M Treherne	2,808,457	-	-	-	2,808,457
Dr I Chessell (a)	435,000	-	-	-	435,000
Mr D McAuliffe	2,936,330	-	-	10,282	2,946,612
Mr J Hannaford	198,816	-	-	-	198,816
Dr T Evans	-	-	-	-	-
Dr C Moyses	-	-	-	-	-
Mr Harry Karelis (b)	10,023,530	-	-	-	10,023,530
	16,402,133	-	-	10,282	16,412,415
Other Key Management Personnel					
Prof D Spanswick	2,654,995	-	-	-	2,654,995
	2,654,995	-	-	-	2,654,995

(a) Dr Chessell resigned from the board of NeuroDiscovery on 15 June 2009. Details of his shareholdings are as at this date.

(b) Mr Karelis was appointed to the board of NeuroDiscovery on 10 June 2009. The balance of his shareholdings at the start of the year are as at this date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. DIRECTOR'S AND KEY MANAGEMENT PERSONNEL (CONTINUED)

Ordinary Shares **2008** **Directors**	**Balance at Start of Year** **01-07-2007**	**Granted During Year as Compensation**	**Issued During Year on Exercise of Options**	**Other Changes During the Year**	**Balance at End of Year** **30-06-2008**
Dr J M Treherne	2,771,518	-	-	36,939	2,808,457
Dr I Chessell	-	375,000	-	60,000	435,000
Mr D McAuliffe	2,856,918	-	-	79,412	2,936,330
Mr J Hannaford	139,991	-	-	58,825	198,816
Dr T Evans	-	-	-	-	-
	5,768,427	375,000	-	235,176	6,378,603
Other Key Management Personnel					
Prof D Spanswick	2,654,995	-	-	-	2,654,995
	2,654,995	-	-	-	2,654,995

All equity transactions with Directors and Key Management Personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

d) Other transactions and balances with Directors and Key Management Personnel

Revenue

During the financial year NeuroSolutions provided services and received payment on normal commercial terms from the following companies of which Dr JM Treherne is a Director:

	2009 **$**	**2008** **$**
Senexis Limited	154,793	23,801
Faust	-	1,987

Expenses

During the financial year NeuroSolutions received goods and made payment on normal commercial terms to the following companies of which Dr JM Treherne is a Director:

	2009 **$**	**2008** **$**
Xention Limited	3,328	7,819

During the financial year NeuroDiscovery Limited made payment on normal commercial terms to the following companies of which Mr J Hannaford is a Director:

	Detail	**2009** **$**	**2008** **$**
Ventnor Capital Pty Ltd	Company secretarial and financial management and administration services	63,780	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. DIRECTOR'S AND KEY MANAGEMENT PERSONNEL (CONTINUED)

During the financial year NeuroDiscovery Limited made payment on normal commercial terms to the following companies of which Mr D McAuliffe is a Director:

	Detail	2009 $	2008 $
Concept Biotech Ltd	Company secretarial services	13,000	27,000

7. AUDITORS REMUNERATION

	Consolidated		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
Amounts received or due and receivable by WHK Horwath Perth Audit Partnership for:				
▪ an audit or review of the financial report of the entity and any other entity in the Consolidated entity	36,100	29,500	36,100	29,500
▪ other services in relation to the entity and any other entity in the Consolidated entity				
- assurance related	-	-	-	-
	36,100	29,500	36,100	29,500
Amounts received or due and receivable by other auditors for:				
▪ an audit or review of the financial report of subsidiary	53,260	28,153	-	-
	89,360	57,653	36,100	29,500

8. EARNINGS/(LOSS) PER SHARE

Basic earnings per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. EARNINGS/(LOSS) PER SHARE (CONTINUED)

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations:

		Consolidated	
		2009	**2008**
		$	**$**
a)	Reconciliation of earnings to profit or loss		
	- Net loss attributable to equity holders	(440,178)	(2,211,265)
b)	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	**No.**	**No.**
		57,486,183	56,404,320

Diluted EPS not disclosed as potential ordinary shares are anti-dilutive.

Diluted earnings per share

When dilutive earnings per shares would result in more favourable earnings, diluted and basic earnings per share are considered equal.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

9. CASH AND CASH EQUIVALENTS

	Consolidated		Parent Entity	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Cash at bank and in hand	238,924	52,935	5,030	18,818
Short-term bank deposits	1,156,148	1,692,728	1,156,148	1,692,728
	1,395,072	1,745,663	1,161,178	1,711,546

The effective interest rate on short-term bank deposits are made for varying periods of between one day and one month depending on immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates between 0.01% and 5.40%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. CASH AND CASH EQUIVALENTS (CONTINUED)

Reconciliation from the net loss after tax to the net cash flows used in operations:

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Net loss	(440,178)	(2,211,265)	(2,419,283)	(600,554)
Adjustments for:				
Depreciation	332,805	287,633	-	3,120
Amortisation of deferred profit on sale and leaseback.	(225,552)	(186,566)	-	-
Share based payments	79,107	107,005	79,107	107,005
Non cash consideration	-	76,750	-	76,750
Unrealised fx loss (gain)	62,729	244,258	-	-
Impairment of intangible assets	366,300	-	-	-
Provision for impairment of loans receivable	-	-	2,000,000	-
Change in assets and liabilities				
Decrease/(increase) in trade and other receivables and prepayments	(39,905)	49,831	(13,448)	1,605
Increases/(Decrease) in deferred tax	(110,240)	29,845	-	-
Increase in tax rebate received	-	143,921	-	-
Increases/(Decrease) in trade and other payables	(129,040)	(721,659)	35,217	(3,559)
Cash flows from operating activities	(103,974)	(2,180,247)	(318,407)	(415,633)

10. TRADE AND OTHER RECEIVABLES

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
CURRENT				
Trade receivables	497,452	532,207	7,073	-
Other related parties	1,178	2,240	1,178	10,939
	498,630	534,447	8,251	10,939
NON - CURRENT				
Loans to Subsidiary	-	-	2,642,162	-
Provision for non-recovery	-	-	(2,000,000)	-
	-	-	642,162	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

Credit Risk – Trade and Other Receivables

On a geographical basis, the Consolidated Entity has significant credit risk exposures in Australia and the United Kingdom given the substantial operations in those regions. The Consolidated Entity's exposure to credit risk for receivables at reporting date in those regions is as follows:

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
AUD				
Australia	8,249	10,939	8,251	10,939
United Kingdom	490,381	523,508	-	-
	498,630	534,447	8,251	10,939

The following table details the Consolidated Entity's trade and other receivables exposed to credit risk (prior to other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the dent has not been settled, with the terms and conditions agreed between the Consolidated Entity and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for when there are specific circumstances indicating that the debt may not be fully repaid to the Consolidated Entity.

The Balances of receivables that remain within trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross Amount	Past due and impaired	Past due but not impaired (days overdue)			Within initial trade terms
			<30	31-60	>90	
Consolidated	$	$	$	$	$	$
2009						
Trade and term receivables	490,381	-	178,883	93,337	36,227	181,934
Other receivables	8,251	-	-	-	-	8,251
	498,630	-	-	-	-	190,185
2008						
Trade and term receivables	533,400	-	243,512	27,834	-	262,054
Other receivables	1,047	-	-	-	-	1,047
	534,447	-		-	-	263,101
Parent Entity						
2009						
Trade and term receivables	-	-	-	-	-	-
Other receivables	8,249	-	-	-	-	8,249
	8,249	-	-	-	-	8,249
2008						
Trade and term receivables	-	-	-	-	-	-
Other receivables	10,939	-	-	-	-	10,939
	10,939	-	-	-	-	10,939

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. OTHER FINANCIAL ASSETS

	Consolidated		Parent Entity	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Investments in controlled entity	-	-	3,218,572*	5,628,773
	-	-	3,218,572	5,628,773

* $2,410,201 of the Company's investment in its subsidiary was reclassified as a loan receivable during the financial year (see note 25 for further details)

12. CONTROLLED ENTITIES

Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned % 2009	Percentage Owned % 2008
NeuroSolutions Limited	United Kingdom	100	100

NeuroDiscovery Limited is the ultimate parent entity.

13. PLANT AND EQUIPMENT

	Consolidated		Parent Entity	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	1,198,629	1,136,597	6,315	6,315
Accumulated depreciation	(944,141)	(616,648)	(6,315)	(6,315)
Total Plant and equipment	254,488	519,949	-	-

a) Movements in Carrying Amounts

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

	Consolidated	Parent Entity
	$	**$**
Balance at 1 July 2007	804,165	3,120
On acquisition of subsidiary	-	-
Additions	35,226	-
Disposals	-	-
Revaluation increments/(decrements)	-	-
Depreciation and amortisation expense	(319,442)	(3,120)
Balance at 30 June 2008	519,949	-
Additions	67,344	-
Disposals	-	-
Revaluation increments/(decrements)	-	-
Depreciation and amortisation expense	(332,805)	-
Balance at 30 June 2009	254,488	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. INTANGIBLE ASSETS

	Consolidated		
	Intellectual Property $	Goodwill $	Total $
As at 1 July 2007	1,818,333	1,841,418	3,659,751
Cancellation of class C performance shares	(308,332)	-	(308,332)
As at 1 July 2008	1,510,001	1,841,418	3,351,419
Impairment of intangible asset	(366,300)	-	(366,300)
As at 30 June 2009	1,143,701	1,841,418	2,985,119

The intellectual property and goodwill represents intangible assets purchased through the effect of a business combination. The useful lives of intellectual property and goodwill were estimated as indefinite and the cost method was utilised for their measurement. This acquisition has allowed the Group to determine that these assets have an indefinite useful life.

During the year these assets were tested for impairment, refer to Note 21 for details regarding the impairment of goodwill and intellectual property.

For the year ended 30 June 2009 intangible assets are considered to have an indefinite life and are tested annually for impairment.

Performance Shares

Performance shares were issued on 10 August 2005 in consideration for issued share capital of NeuroSolutions Limited. 1,541,666 Class C Performance Shares were cancelled on 10 August 2007 as the milestone was not achieved.

15. SHARE-BASED PAYMENTS

Employee Share Option Plan

The Group has an Employee Share Option Plan (ESOP) for the granting of non-transferable options to certain employees.

Options issued under the ESOP will vest when both the following conditions have been met:

(i) 50% on completion of twelve months service; and
(ii) the employee continues to be an employee in the service of the Group for a further twelve months.

Other relevant terms and conditions applicable to options granted under the ESOP include:

- upon exercise, these options will be settled in ordinary shares of NeuroDiscovery Limited.

Options issued during the financial year ended 30 June 2009
There were no options issued to Employees or Directors during the financial year.

Options issued during the financial year ended 30 June 2008
1. On 4 April 2008, 827,154 options with a fair value of $0.031 each were granted over ordinary shares with an exercise price of $0.18 each, exercisable upon meeting the above vesting conditions and until 4 April 2012.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. SHARE-BASED PAYMENTS (CONTINUED)

The fair values of the options are estimated at the date of grant using the black and scholes model. The following table gives the assumptions made in determining the fair value of the options granted in the year to 30 June 2008.

	2008
Dividend yield (%)	6.75
Expected volatility (%)	50
Risk-free interest rate (%)	7.10
Expected life of option (years)	3
Option exercise price ($)	0.18
Share price at grant date ($)	0.135

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

2. <u>Directors' options</u>

(a) On 22 November 2007, 150,000 options with a fair value of $0.0623 each were granted over ordinary shares with an exercise price of $0.25 each, exercisable upon meeting the above vesting conditions and until 30 November 2010.

These options were issued pursuant to shareholder approval, and will vest when the following conditions have been met:

(i) 50% of the Director Options to be issued and exercisable upon completion of one year of continuous service commencing from the date of issue and the balance on the completion of two years continuous service.

The fair values of the options are estimated at the date of grant using the black and scholes model. The following table gives the assumptions made in determining the fair value of the options granted in the year to 30 June 2008.

	2008
Dividend yield (%)	6.86
Expected volatility (%)	100
Risk-free interest rate (%)	6.43
Expected life of option (years)	3
Option exercise price ($)	0.25
Share price at grant date ($)	0.15

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. SHARE-BASED PAYMENTS (CONTINUED)

2. Directors' options (cont'd)

(b) On 4 April 2008, 4,500,000 were granted over ordinary shares as follows:

1,500,000 options with a fair value of $0.0324 each were granted over ordinary shares with an exercise price of $0.18 each, exercisable upon meeting the above vesting conditions and until 4 October 2012.

1,500,000 options with a fair value of $0.0273 each were granted over ordinary shares with an exercise price of $0.24 each, exercisable upon meeting the above vesting conditions and until 4 October 2013.

1,500,000 options with a fair value of $0.019 each were granted over ordinary shares with an exercise price of $0.40 each, exercisable upon meeting the above vesting conditions and until 4 October 2014.

These options were issued pursuant to shareholder approval and will vest when the following conditions have been met:

(i) 1,500,000 Director's Options to be issued are exercisable upon completion of six months of continuous service commencing from the date of issue.
(ii) 1,500,000 Director's Options to be issued are exercisable upon completion of eighteen months of continuous service commencing from the date of issue.
(iii) 1,500,000 Director's Options to be issued are exercisable upon completion of thirty months of continuous service commencing from the date of issue.

The fair value of the options are estimated at the date of grant using the black and scholes model. The following table gives the assumptions made in determining the fair value of the director options granted in the year to 30 June 2008.

	2012 Options	2013 Options	2014 Options
Dividend yield (%)	6.75	6.75	6.75
Expected volatility (%)	50	50	50
Risk-free interest rate (%)	7.10	7.10	7.10
Expected life of option (years)	4.5	5.5	6.5
Option exercise price ($)	0.18	0.24	0.40
Share price at grant date ($)	0.135	0.135	0.135

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. SHARE-BASED PAYMENTS (CONTINUED)

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of share options issued during the year.

	No.	WAEP
Outstanding at 1 July 2007	4,157,083	$0.225
Options granted during the year	5,477,154	$0.2675
Options forfeited during the year	(141,982)	
Outstanding at 30 June 2008	9,492,255	$0.2675
Options Cancelled during the year	(4,500,000)	
Options expired during the period	(1,000,000)	
Outstanding at 30 June 2009	3,992,255	$0.2103
Exercisable at the end of the year	3,503,678	$0.213

The outstanding balance as at 30 June 2009 is represented by:

- 1,865,101 options over ordinary shares with an exercise price of $0.20 each, exercisable upon meeting the above conditions and until 30 September 2009;
- 150,000 Director’s options over ordinary shares with an exercise price of $0.20 each, exercisable upon meeting conditions and until 30 November 2009;
- 1,150,000 Director’s options over ordinary shares with an exercise price of $0.25 each, exercisable upon meeting the above conditions and until 30 November 2010; and
- 827,154 options over ordinary shares with an exercise price of $0.18 each, exercisable upon meeting the above conditions and until 4 April 2012.

The weighted average contractual life for the share options outstanding as at 30 June 2009 is 1.1 year.

Share options issued under the ESOP and outstanding at the end of the year have the following exercise prices:

Expiry Date	Exercise Price	2009 No.	2008 No.
30-09-09	$0.20	1,865,101	1,865,101
30-11-09	$0.20	150,000	150,000
30-11-10	$0.25	1,150,000	1,150,000
04-10-12	$0.18	827,154	2,327,154
04-10-13	$0.24	-	1,500,000
04-10-14	$0.40	-	1,500,000
30-06-09	$0.20	-	1,000,000
Total		3,992,255	9,492,255

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. TRADE PAYABLES

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
CURRENT				
Trade payables	175,161	188,344	43,347	24,703
Deferred profit on sale of assets	-	225,555	-	-
Unearned revenue	77,746	26,268	-	-
Other payables	218,005	349,534	40,000	23,427
	470,912	789,701	83,347	48,130

Trade payables are non-interest bearing and are normally settled on 60-day terms. Other payables are non-interest bearing and have an average term of 6 months.

The net of GST payable and GST receivable is remitted to the appropriate tax body on a quarterly basis.

17. INEREST-BEARING LOANS AND BORROWINGS

	Effective Interest Rate %	Maturity	Consolidated		Parent Entity	
			2009	2008	2009	2008
			$	$	$	$
CURRENT						
Obligations under finance leases (note 20)	8	30-06-2009	-	148,863	-	-
			-	148,863	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. ISSUED CAPITAL

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Ordinary and Performance Shares				
Issued and fully paid	8,629,515	8,508,339	8,629,515	8,508,339

a) **Ordinary and Performance Shares**

	No.	No.	No.	No.
At the beginning of reporting period	57,486,184	44,258,334	57,486,184	44,258,334
Shares issued during year				
- Ordinary shares issued on 11-07-07 pursuant to a Placement	-	11,476,471	-	11,476,471
- Ordinary shares issued on 24-07-07 pursuant to a Share Purchase Plan	-	2,241,574	-	2,241,574
- Ordinary shares issued on 24-07-07 as payment to advisors in satisfaction of services rendered	-	250,000	-	250,000
- Cancellation of Performance C class shares	-	(1,541,666)	-	(1,541,666)
- Ordinary shares issued on 4-04-08 pursuant to Share Placement to CEO	-	375,000	-	375,000
- Ordinary shares issued on 4-04-08 as payment to advisors in satisfaction of services rendered	-	426,471	-	426,471
	57,486,184	57,486,184	57,486,184	57,486,184

i. Ordinary shares entitle the holder to participate in dividends and the proposed winding up of the company in proportion to the number and amount paid on the share hold.

ii. Capital management
The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future development of the business. Given the stage of the consolidated entity's development there are no formal targets set for return on capital. There were no changes to the consolidated entity's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

b) **Options**

i. This includes 3,992,255 options over ordinary shares outstanding at 30 June 2009 (2008: 9,492,255). This includes 2,692,255 options (2008: 2,834,237) held under an Employee share option plan (ESOP) outstanding at 30 June 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. RESERVES

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Share-based Payment Reserve	132,805	174,873	132,805	174,873
	132,805	174,873	132,805	174,873

Share-based Payment Reserve				
Balance at 1 July 2008	174,873	142,868	174,873	142,868
Share-based payments	79,107	32,005	79,107	32,005
Options cancelled and expired	(121,175)	-	(121,175)	-
As at 30 June 2009	132,805	174,873	132,805	174,873

Nature and purpose of Reserve

Share-based Payment Reserve
The share-based payments reserve is used to record the value of equity benefits which may be provided:

- to employees and Directors as part of their remuneration under an Employee share option plan (ESOP) (refer to note 15 for further details of the ESOP);
- to Directors on terms determined by the Remuneration Committee and approved by shareholders; and
- to advisers and consultants as payments for services.

20. COMMITMENTS

Finance lease

The Group has finance leases for various items of plant and machinery; these leases have no terms of renewal or purchase options and escalation clauses.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2009		2008	
	Minimum Payments	Present Value of Payments	Minimum Payments	Present Value of Payments
Consolidated				
Within one year	-	-	162,480	162,480
After one year, but not more than five years	-	-	-	-
Total minimum lease payments	-	-	162,480	162,480
Less amounts representing finance charges	-	-	(13,617)	(13,617)
Present value of minimum lease payments	-	-	148,863	148,863

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. IMPAIRMENT TESTING OF INDEFINITE LIVED GOODWILL AND INTELLECTUAL PROPERTY

Goodwill acquired through business combinations has been allocated to the contract services unit and testing and intellectual property has been allocated to the Research and Development unit.

Carrying amount of goodwill and intellectual property

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Carrying amount of goodwill	1,841,418	1,841,418	-	-
Carrying amount of Intellectual Property with indefinite useful life	1,143,701	1,510,001	-	-
	2,985,119	3,351,419	-	-

Key assumptions used in value in use calculation for 30 June 2009

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill and intellectual property.

Goodwill

The recoverable amount of the contract services business has been determined based on a value in use calculation.

To calculate this, cash flow projections are based on financial budgets approved by the Board and Key Management covering a 12 month period.

The discount rate applied to cash flow projections is 20% and cash flows are extrapolated using a 20% growth rate in the next 12 months followed by a 5% growth rate in subsequent years.

Research and development unit

The recoverable amount of the research and development unit has been determined based on a value in use calculation.

To calculate this, cash flow projections are based on financial budgets approved by the Board and Key Management Personnel covering a 12 month period.

The discount rate applied to cash flow projections is 20% and cash flows are estimated based on timing of anticipated licensing deals in relation to the Group's products under development.

As a result of funding issues and the need to preserve the Company's cash reserves the Company served notice to Sosei Group Corporation ("Sosei"), in December 2008, that at this time, the Company is unable to contribute to its share of the outstanding costs of development of NSL-043 for the period January to September 2008.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. IMPAIRMENT TESTING OF INDEFINITE LIVED GOODWILL AND INTELLECTUAL PROPERTY (CONTINUED)

Under the Collaboration Agreement with Sosei in the event that NeuroSolutions is unable to contribute to costs of development and has notified Sosei in writing that it is unable to contribute to the costs (or it has failed to contribute to its share of the costs) then NeuroSolutions share of the ownership of the intellectual property and its right to receive 50% of the revenue will be reduced after taking into account the total costs that NeuroSolutions has contributed at the time the first revenue is received, unless otherwise agreed by the management committee of NSL-043.

Due to the notice NeuroSolutions interest in the NSL-043 development may be reduced from 50% to 33.5% and potentially cause a drop in the value of the Company's investment in the program, based on NeuroSolutions unpaid contributions. It is on this basis that the intellectual property value recorded in the NeuroDiscovery group be impaired by 33.5% to the value below, resulting in a $366,300 impairment loss being recorded during the half year ending 31 December 2008.

Importantly, NeuroSolutions has agreed with Sosei to time extensions in which to raise additional funds to enable it to contribute to its outstanding payments and contribute to its 50% share of the costs set out in agreed milestone budgets to achieve the next milestone or continue the development programme for the next twelve months. The extensions are due to expire in December 2009.

22. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In December 2008 NeuroDiscovery's 100% subsidiary served notice to Sosei Group Corporation ("Sosei") of its inability to contribute its costs in relation to the NSL-043 compound. Under the terms of the collaboration agreement between NeuroSolutions and Sosei, NeuroSolutions is not liable to pay its contributions to the development of the NSL-043 compound.

Under clause 5.10 of the agreement NeuroSolutions has until 11 December 2009 to raise additional funds and on satisfaction of this condition will become liable to pay its share of costs in relation to the NSL-043 compound.

The Directors are not aware of any contingent liabilities or contingent assets, other than those stated above, as at 30 June 2009.

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise finance leases and cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

The Group also monitors the market price risk arising from all financial instruments. The magnitude of this risk that has arisen over the year is discussed in Note 24.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's finance lease obligations and cash at bank.

The Company does not rely on the generation of interest on cash at bank and finance lease to provide working capital and as a result it is not exposed to interest rate risk.

The details of exposures to interest rate risk of financial assets and liabilities, together with the maturity analysis are detailed in Note 24.

Foreign currency risk

As a result of significant investment operations in the United Kingdom, the Group's balance sheet can be affected significantly by movements in the AUD$/GBP exchange rates. The Board does not seek to hedge this exposure.

At 30 June 2009, the effect on results for the year and equity as a result of changes in the value of the Australian Dollar to the Sterling Pound GBP, with all other variables remaining constant has been detailed in Note 24.

Commodity price risk

The Group is not exposed to price risk.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counter party to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and cash at bank.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The age analysis of trade receivable past due but not impaired is disclosed in Note 10.

The credit risk on liquid funds is limited because the counter party is a bank with high credit rating.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial liabilities as and when they fall due. The Group manages liquidity risk by continually monitoring cash reserves and cashflow forecasts to ensure that financial commitments can be met when and as they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of finance leases and equity funding.

Fair values

The fair values of all financial assets and liabilities of the Group approximate their carrying values.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. FINANCIAL INSTRUMENTS

Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk:

Year ended 30 June 2009	< 1 year $	> 1 - < 5 Years $	+ 5 Years $	Total $	Weighted Average Interest Rate $
Consolidated					
Floating Rate					
Financial Assets					
Cash and cash equivalents	1,395,072	-	-	1,395,072	4.12
	1,395,072	-	-	1,395,072	
Financial Liabilities					
Finance leases	-	-	-	-	-
	-	-	-	-	
Parent Entity					
Floating rate					
Financial Assets					
Cash assets	1,161,178	-	-	1,161,178	4.62
	1,161,178	-	-	1,161,178	
Year ended 30 June 2008					
Consolidated					
Floating Rate					
Financial Assets					
Cash and cash equivalents	1,745,663	-	-	1,745,663	3.90
	1,745,663	-	-	1,745,663	
Financial Liabilities					
Finance leases	148,863	-	-	148,863	8.00
	148,863	-	-	148,863	
Parent Entity					
Floating rate					
Financial Assets					
Cash assets	1,711,546	-	-	1,711,546	5.40
	1,711,546	-	-	1,711,546	

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

The other financial instruments of the Group and Parent that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate sensitivity

Interest rate risk sensitivity analysis:

		Effect On:		Effect On:	
Consolidated		**Profit 2009**	**Profit 2008**	**Equity 2009**	**Equity 2008**
Risk Variable	**Sensitivity***	**$**	**$**	**$**	**$**
Interest Rate	+ 0.50%	5,274	14,031	5,274	14,031
	- 0.50%	(5,274)	(14,031)	(5,274)	(14,031)

		Effect On:		Effect On:	
Parent Entity		**Profit 2009**	**Profit 2008**	**Equity 2009**	**Equity 2008**
Risk Variable	**Sensitivity***	**$**	**$**	**$**	**$**
Interest Rate	+ 0.50%	4,655	9,201	4,655	9,201
	- 0.50%	(4,655)	(9,201)	(4,655)	(9,201)

*The method used to arrive at the possible change of 50 basis points was based on the analysis of the absolute nominal change of the Reserve Bank of Australia (RBA) monthly issued cash rate. Historical rates indicate that for the past five financial years, there was a bias towards an increase in interest rate ranging between 0 to 50 basis points. It is considered that 50 basis points is a 'reasonably possible' estimate as it accommodates for the maximum variations inherent in the interest rate movement over the past five years.

Foreign exchange rate sensitivity

Foreign exchange rate risk sensitivity analysis:

		Effect On:		Effect On:	
Consolidated		**Profit 2009**	**Profit 2008**	**Equity 2009**	**Equity 2008**
Risk Variable	**Sensitivity***	**$**	**$**	**$**	**$**
FX Rate	+ £0.04	(17,409)	101,871	(17,409)	101,871
	- £0.04	17,409	(101,871)	17,409	(101,871)

*The method used to arrive at the possible change of £0.04 was based on the analysis of the yearly opening and closing Reserve Bank of Australia (RBA) daily issued exchange rate. It is considered that £0.04 is a 'reasonably possible' estimate as it accommodates for the maximum variations inherent in the exchange rate movement over the past five years.

The parent entity's foreign exchange risk is considered immaterial and is therefore not shown.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of NeuroDiscovery Limited and the subsidiaries listed in the following table.

	Country of Incorporation	% Equity Interest		Investment	
		2009	2008	2009	2008
NeuroSolutions Limited	United Kingdom	100	100	3,218,572	5,628,773
				3,218,572	5,628,773

NeuroDiscovery Limited is the ultimate Australian parent entity.

Loans to subsidiary

Loans to subsidiaries were made during the year as follows:

Loans to:	Company NeuroSolutions
	$
At 1 July 2008	-
Reclassification of investment to loans to subsidiary	2,410,201
Loans advanced	231,961
Provision for diminution	(2,000,000)
At 30 June 2009	642,162

Terms and Conditions of loans

Loans between entities in the wholly owned Group are not interest bearing, unsecured and are payable upon reasonable notice having regard to the financial stability of the Company.

Director related entities

During the year the parent and its subsidiary made payments to Directors and their related entities for services provided. Details are disclosed at note 6.

26. PRIOR YEAR ERROR

The year end 30 June 2008 financial statements recorded an amount as trade creditors of $556,034, being amounts invoiced by Sosei Group Corporation ("Sosei") which at 30 June 2008 remained unpaid. These invoices were in relation to the Groups share of costs incurred in the NSL-043 program. Under the terms of the Collaboration Agreement with Sosei, the Group had the option not to settle these invoices at that date and instead suffer a reduction in its interest in NSL-043 from 50% to 33.5%. In December 2008 the company served notice that it would not be contributing further development funding on NSL-043 and as such the $556,034 would not be paid.

As a result the consolidated financial statements for the year ended 30 June 2008 require restatement as follows:

		$
Balance Sheet:		
- Trade and other payables	overstated by	556,034
- Total Current Liabilities	overstated by	556,034
- Total Liabilities	overstated by	556,034
- Net Assets	understated by	556,034
- Accumulated Losses	overstated by	556,034
- Total Equity	understated by	556,034
Income Statement:		
- Research and Development Expenditure	overstated by	556,034
- Loss attributable to members of the parent entity	overstated by	556,034

The 30 June 2008 comparatives in these financial statements have been restated to reflect the above.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. EVENTS AFTER BALANCE SHEET DATE

On 6 August 2009 NeuroDiscovery announced its 100% subsidiary NeuroSolutions had entered into a specialist services agreement with a major international pharmaceutical company. The contract, the largest in the company's eight year history, is valued at approximately £310,000 (approximately A$620,000) and is expected to take around 12 months to complete.

Under the terms of the agreement, NeuroSolutions will use its specialist pharmacology and electrophysiology expertise to evaluate the client's proprietary compounds.

On 6 August 2009 NeuroDiscovery also announced Sosei and NeuroSolutions have agreed to another three month extension on the collaboration agreement extending the agreement to 11th December 2009.

On 31 July 2009 Mr John Hannaford resigned from the position of Non-Executive Director.

No other significant events occurred after balance date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

28. COMPANY DETAILS

The registered office of the Company is:

Level 11, 225 St Georges Tce
Perth WA 6000
Tel: (08) 9226 4033
Fax: (08) 9226 0333

The principal places of business are:

NeuroDiscovery Limited
Level 11, 225 St Georges Tce
Perth WA 6000
AUSTRALIA

NeuroSolutions Limited
PO Box 3517,
Coventry, CV4 7ZS
UNITED KINGDOM

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of NeuroDiscovery Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes as set out on pages 20 to 62, of the Company and of the Consolidated entity are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's and Consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards and Corporations Regulations 2001; and

(b) the Executive Director and Financial Officer have each declared that:

  (i) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

  (ii) the financial statements and notes for the financial year comply with the Accounting Standards; and

  (iii) the financial statements and notes for the financial year give a true and fair view.

(c) in the directors opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

David M'Auliffe

DAVID MCAULIFFE
EXECUTIVE DIRECTOR

Perth, Western Australia, 17 September 2009

INDEPENDENT AUDIT REPORT TO MEMBERS OF NEURODISCOVERY LIMITED AND ITS CONTROLLED ENTITY

We have audited the accompanying financial report of NeuroDiscovery Limited (the company) and NeuroDiscovery Limited and its Controlled Entity (the consolidated entity), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion, the financial report of NeuroDiscovery Limited and NeuroDiscovery Limited and its Controlled Entity is in accordance with the Corporations Act 2001 including:

(a) (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Member Horwath International
WHK Horwath Perth Audit Partnership ABN 96 844 819 235
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GPO Box P1213 Perth WA 6844 Australia
Telephone +61 8 9481 1448 Facsimile +61 8 9481 0152
Email perth@whkhorwath.com.au www.whkhorwath.com.au
A WHK Group firm

REPORT ON THE REMUNERATION REPORT
We have audited the Remuneration Report included in pages 12 to 15 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion
In our opinion the Remuneration Report for NeuroDiscovery Limited (the company) and NeuroDiscovery Limited and its Controlled Entity (the consolidated entity) for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

WHK HORWATH PERTH AUDIT PARTNERSHIP

SEAN MCGURK
Principal

Perth, WA

Dated this 17th day of September 2009

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

The Board of Directors of NeuroDiscovery Limited (NeuroDiscovery or Company) is responsible for the Corporate Governance of the Company and is committed to applying the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (ASX Principles). The Board guides and monitors the business and affairs of NeuroDiscovery on behalf of the shareholders by whom they are elected and to whom they are responsible.

To ensure the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of Directors and for the operation of the Board.

THE BOARD OF DIRECTORS

Composition of the Board

The composition of the Board is determined in accordance with the following principles and guidelines:

The Board should comprise at least three Directors; and
The Board should comprise Directors with an appropriate range of qualifications and expertise; and
The Board shall meet at least monthly and follow meeting guidelines set down to ensure all Directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

The Directors in office at the date of this statement are:

Name	Role	Non-Executive	Independent
Dr J Mark Treherne	Chairman	Yes	No
Mr David McAuliffe	Executive Director	No	No
Mr Harry Karelis	Non-executive Director	Yes	No

Nomination Committee

The Board has established a Nomination Committee to assist the Board in selecting candidates for the position of Director. The Nomination Committee comprises two Directors. The members of the Nomination Committee comprise the following:

Dr J Mark Treherne
Mr David McAuliffe

Remuneration Committee

The Board is responsible for determining and reviewing compensation arrangements for the Executive Directors and Key Management Personnel. The Board has established a Remuneration Committee, comprising the Chairman and one Non-Executive Director. The members of the Remuneration Committee comprise the following:

Dr J Mark Treherne
Mr Harry Karelis

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (CONTINUED)

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes. This includes the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the Audit Committee.

The Audit Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The Audit Committee is also responsible for:

- Directing and monitoring the internal audit function (when established); and Nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half year statutory audit or review.

The members of the Audit Committee comprise the following:

Mr David McAuliffe
Mr Harry Karelis

Board Responsibilities

As the Board acts on behalf of and is accountable to the shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the Company is delegated by the Board to the Executive Directors and Key Management Personnel. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Executive Directors and Key Management Personnel.

The Board is responsible for ensuring the management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved. In addition to the establishment of the committees referred to above, these mechanisms include the following:

- Board approval of a strategic plan, which encompasses the Company's vision, mission and strategy statements and is designed to meet stakeholders' needs and manage business risk;
- The strategic plan is a dynamic document and the Board is actively involved in developing and approving initiatives and strategies designed to ensure the continued growth and success of the entity;
- Implementation of operating plans and budgets by management and Board monitoring of progress against budget – this includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes;
- Management of environmental issues and concerns, and occupational health and safety; and
- The review and approval of acquisitions and disposals of business and assets, and the approval of contracts and financial arrangements within defined limits.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (CONTINUED)

Monitoring of the Board's Performance and Communication to Shareholders

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of all Directors is reviewed annually by the chairperson. Directors whose performance is unsatisfactory are asked to retire.

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors. Information is communicated to the shareholders through:

- The annual report which is distributed to all shareholders;
- The half-yearly report available to all shareholders; and
- The annual general meeting and other meetings so called to obtain approval for Board action as appropriate.

THE NEURODISCOVERY WEBSITE – CORPORATE GOVERNANCE

The Company intends to publish on its website at www.neurodiscoveryltd.com information relating to NeuroDiscovery's corporate governance policies and practices.

THE ASX PRINCIPLES

The ASX principles are an important regulatory guide for listed companies reporting on their corporate governance practices. Under ASX Listing Rule 4.10.3, listed companies must disclose the extent to which they have followed ASX Principles, and if any of the recommendations have not been followed then the company must explain why not.

The requirements under ASX Listing Rule 4.10.3 apply to NeuroDiscovery and below the Company sets out and explains any departures by NeuroDiscovery from the ASX Principles.

1. Lay solid foundations for management and oversight

The ASX Corporate Governance Council states that a company should "Recognise and publish the respective roles and responsibilities of board and management".

The Board has adopted a formal charter that sets out the responsibilities reserved by the Board and those delegated to the Executive Officers. The charter is reviewed annually to ensure it remains consistent with accepted practice in the context of the Board's objective and responsibilities. Specifically, the Board is charged with: setting the strategic direction of the NeuroDiscovery Group and monitoring management's performance within the framework; reviewing whether there are adequate resources available to meet NeuroDiscovery Group objectives; appointing and removing Executive Directors and overseeing succession plans for Key Management Personnel; approving and monitoring financial reporting and capital management; approving and monitoring the progress of business objectives; assessing the risk management framework and whether appropriate procedures are being followed; ensuring that the NeuroDiscovery Group has appropriate corporate governance structures in place including standards of ethical behaviour and promoting a culture of corporate and social responsibility; and monitoring whether the Board is appropriately skilled to meet the changing needs of the Group.

The Chairman is responsible for leading the Board in its duties, facilitating effective discussions at board meetings, ensuring procedures are in place to evaluate board performance and overseeing shareholder communications. The Executive Directors are responsible for the efficient and effective operation of the NeuroDiscovery Group, and for bringing material and other relevant matters to the attention of the Board in an accurate and timely manner.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (CONTINUED)

2. Structure of the Board to Add Value

The ASX Corporate Governance Council states that a company should "Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties".

Skills

A requirement for the NeuroDiscovery Directors is an understanding of the biotechnology sector. All Directors meet this threshold requirement. They also bring a diverse range of skills, and backgrounds including investment banking and stockbroking, financial regulation, technology, law and public policy as well as international business skills. The Board currently consists of three Directors. The experience and qualification of each Director and their terms of office are further discussed on pages 5, 6 and 7 of the Director's Report.

Experience

The Directors have an appropriate mix of tenure, blending experience with new membership. The Board considers this mix invaluable. Given the nature of NeuroDiscovery's business, longstanding involvement and experience in the biotechnology sector is highly desirable to bring the skills, experience and judgement required for effective decision-making. The Board considers that the Directors exercise independent judgement in the task of enhancing shareholder value.

Appointment and removal

Board succession planning is considered an important part of the governance process. Progressive and orderly renewal of board membership is important. The appointment and removal of Directors is governed by the NeuroDiscovery Board and the Appointment of Non-Executive Directors Policy set out the procedures followed when considering the appointment of new Directors.

Stakeholder perspectives

An important function of Directors is to bring the perspective of stakeholders to the oversight of a company. NeuroDiscovery Directors bring many perspectives to the Board's deliberations including those of members of the investment community and the views and interests of employees.

Independence

During the financial year, the Company did not have a majority of independent Directors. The Board considered that given the Group's stage of development and resources available that it was appropriate at this time to have a majority Non-Executive Board, in the interests of maximising efficiency of the Board and developing the Group's business.

An independent Director is a Non-Executive Director and:

- is not a substantial shareholder of the Company or an officer of, or directly or indirectly associated with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee material associated with the service provided;
- is not a material contractual relationship with the Company or another group member other than as a Director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interest of the Company;
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (CONTINUED)

2. Structure of the Board to Add Value (cont'd)

Independence (cont'd)

The Company has not considered materiality thresholds for assessing independence on the basis of the Company's stage of development.

As circumstances change Directors table any change in outside interests at a meeting of the Board. Where it is considered that a Director had a material potential conflict, it is noted and where appropriate the relevant Director absents him or herself for that specific item of business. That decision is minuted.

Board committees

The Board has established a number of committees to assist it in the performance of its duties. Except where otherwise noted each committee is constituted in accordance with the recommendations in the Guidelines. The establishment of a delegation of tasks to the committees does not dilute the responsibilities of the Board as a whole.

The Remuneration and Nomination Committee's of the Board comprises two Directors. Due to the stage of development of the Company and the resources available, the composition of the Remuneration and Nomination Committees does not comply with recommendation 2.5 of the ASX Principles.

The Committee's responsibilities cover all the matters recommended in the Guidelines, which include setting Director competence standards, reviewing succession plans, evaluating the Board's performance and making recommendations for appointment and removal of Directors, and making recommendations to the Board on: executive remuneration and incentive policies; the remuneration packages of senior management; NeuroDiscovery's recruitment, retention and termination polices for senior management; incentive schemes; superannuation arrangements; the remuneration arrangements; and the remuneration framework for Directors.

The Nomination Committee leads the process of selecting new Directors for consideration by the whole Board. Directors are expected to advise the Chairman in his capacity as chair of that Committee, before accepting additional external postings and give assurance that any new responsibilities will not interfere with the proper execution of their responsibilities to NeuroDiscovery.

The Audit Committee is discussed below.

Membership of the Board's committees is outlined on page 16.

Independent advice

NeuroDiscovery Directors may seek external professional advice at the expense of the Company on matters relating to their role as Directors of NeuroDiscovery. However, they must first request approval from the Chairman, which must not unreasonably be withheld. If permission is withheld the matter may be referred to the whole Board.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (CONTINUED)

3. Promote ethical and responsible decision-making

The ASX Corporate Governance Council states that a company should "Actively promote ethical and responsible decision-making".

Code of Ethics and Conduct

NeuroDiscovery has formally adopted a Code of Ethics and Conduct, which promotes ethical and responsible decision-making by Directors and employees. The Code requires high standards of honesty, integrity, fairness and equity in all aspects of employment with NeuroDiscovery. The Code also sets the task for management of delivering shareholder value, with the oversight of the Board, through the sustainable and efficient operation of the Company.

Education

The Executive Directors of each company within the NeuroDiscovery Group and Company Secretary ensure Directors and employees of the NeuroDiscovery Group are informed with respect to Corporate Governance.

Directors Trading in Securities

The Company has formally adopted a Share Trading Policy which outlines the processes and procedures to be followed by Directors and related parties of the Company to trade in the securities of NeuroDiscovery. The Executive Director and Company Secretary are responsible for the adherence to these policies and procedures.

4. Safeguard integrity in financial reporting

The ASX Corporate Governance Council states that a company should "Have a structure to independently verify and safeguard the integrity of the company's financial reporting".

NeuroDiscovery believes its practices satisfy this principle.

NeuroDiscovery has a structured six-monthly reporting process, culminating in Board sign-off and release of financial results to the market. The Executive Directors and Financial Officers provide letters of assurance to the Board for each half-year and full-year result. NeuroDiscovery also releases unaudited quarterly cashflow statements to the market.

NeuroDiscovery's Audit Committee is constituted in accordance with the Guidelines, and its responsibilities and composition requirements are set out in the Audit Committee Charter. The Composition of the Audit Committee does not comply with recommendation 4.3 of the ASX Principal due to the stage of development of the Company and resources available.

The Audit Committee's primary responsibilities are to review the integrity of the NeuroDiscovery Group's financial and external reporting; review and assess the external auditor's activities, scope and independence; review the management processes for the identification of significant business risks and exposures and oversee the monitoring of internal control structures, including controls against conflicts of interest and fraud. The Audit Committee also has specific responsibility for recommending the appointment or dismissal of external auditors and monitoring any non-audit work carried out by the external audit firm. The procedures for appointment of an external auditor are outlined in the charter. No Director has any association, past or present, with NeuroDiscovery's external auditor.

NeuroDiscovery is required to undergo regulatory audits each year in order to provide assurances to the market regulators and NeuroDiscovery shareholders regarding the operational integrity of NeuroDiscovery systems and processes. The external auditor, WHK Horwarth, under the scrutiny of the Audit Committee, presently conducts these regulatory audits in return for reasonable fees.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (CONTINUED)

5. Make timely and balanced disclosure

The ASX Corporate Governance Council states that a company should "Promote timely and balanced disclosure of all material matters concerning the company".

NeuroDiscovery fulfils its disclosure responsibilities absolutely.

Responsibility for supervision of NeuroDiscovery's compliance with continuous disclosure lies with the Board via its Continuous Disclosure Policy.

The Executive Director responsible for Investor relations has the authority and responsibility for approving market disclosure, which in practice is exercised in consultation with the Company Secretary. The Board reviews announcements made each month, and considers disclosure obligation in the context of each item of business which comes before it.

NeuroDiscovery considers its disclosed discussion of financial results meets the standards outlines in the ASX Guidelines. This disclosure includes availability of materials on the NeuroDiscovery website and provision of all information necessary for investors to make informed decisions about an investment in NeuroDiscovery securities.

6. Respect the rights of shareholders

The ASX Corporate Governance Council states that a company should "Respect the rights of shareholders and facilitate the effective exercise of those rights".

NeuroDiscovery aims to provide good quality, clear communication with shareholders, using available methods and technologies.

NeuroDiscovery views shareholder meetings as an opportunity for shareholders to meet with and question the Board and management of NeuroDiscovery. NeuroDiscovery's external auditor attends the annual general meeting and is available to answer shareholder questions.

NeuroDiscovery's website is a key source of information for NeuroDiscovery shareholders and prospective shareholders. NeuroDiscovery places Company announcements on the site immediately following confirmation of their release to the market.

Further communication with shareholders occurs with the distribution of the annual report (unless shareholders have chosen not to receive these). Email is also an important method of communication for investors. Key announcements and updates can be received by email where shareholders provide their details to NeuroDiscovery or the appointed share registrar.

7. Recognise and manage risk

The ASX Corporate Governance Council states that a company should "Establish a sound system of risk and oversight management and internal control".

The identification and management of risk, including calculated risk-taking activity is viewed by management as an essential component in creating shareholder value.

Management, through the Chief Executive Officer is responsible for developing, maintaining and improving the Company's risk management and internal control system. Management provides the board with periodic reports identifying areas of potential risks and the safeguards in place to efficiently manage material business risks. These risk management and internal control systems are in place to protect the financial statements of the entity from potential misstatement, and the Board is responsible for satisfying itself annually, or more frequently as required, that management has developed a sound system of risk management and internal control.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (CONTINUED)

7. Recognise and Manage Risk (cont'd)

Strategic and operational risks are reviewed at least annually as part of the forecasting and budgeting process. The Company has identified and actively monitors risks inherent in the industry in which the Group operates.

The Board also receives a written assurance from the Executive Director and Financial Officers that to the best of their knowledge and belief, the declaration provided to the Board in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control, and that the system is operating effectively in relation to financial reporting risks. The Board notes that due to its nature, internal control assurance from the Executive Director and Financial Officers can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in internal control procedures.

8. Remunerate fairly and responsibly

The ASX Corporate Governance Council states that a company should "Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined".

NeuroDiscovery's Board has put in place a number of measures to implement this principle.

Discussion on NeuroDiscovery's remuneration policies of Non-Executive Directors, the Executive Directors and Senior Executives of the Group and the relationship between such policy and the Company's performance is provided in the Directors' report on page 12.

ASX ADDITIONAL INFORMATION

Additional information required by the ASX Limited Listing Rules not disclosed elsewhere in this Annual Report is set out below.

SHAREHOLDINGS

The issued capital of the Company at 31 August 2009 is 57,486,183 ordinary fully paid shares. All ordinary shares carry one vote per share.

TOP 20 SHAREHOLDERS AS AT 31 AUGUST 2009

		No. of Shares Held	% Held
1	BIOTECH CAPITAL LTD	8,823,530	15.35%
2	THE UNIVERSITY OF WARWICK	3,469,187	6.03%
3	DR JONATHAN MARK TREHERNE	2,808,457	4.88%
4	PROFESSOR DAVID SPANSWICK	2,654,995	4.62%
5	DR FEI YUE ZHAO	2,654,995	4.62%
6	MS MARGARET LIVINGSTON	2,460,500	4.28%
7	WATERLOO AUSTRALIA PTY LTD	2,033,986	3.54%
8	DR KEVIN LEE	1,899,995	3.31%
9	MR JUSTIN HONDRIS	1,336,688	2.33%
10	GEMELLI NOMINEES PTY LTD	1,210,000	2.10%
11	MASEN PROPERTIES PTY LTD	1,029,411	1.79%
12	MR ALISTAIR DAVID STRONG	800,000	1.39%
13	SCINTILLA STRATEGIC	750,000	1.30%
14	PHILUCHNA PTY LTD	646,669	1.12%
15	MR MARK RICHARD POTTER &	550,000	0.96%
16	LAMBROOK PTY LTD	500,587	0.87%
17	J & J BANDY NOMINEES PTY LTD	500,000	0.87%
18	TBDAJ PTY LIMITED	500,000	0.87%
19	R L WEBB NOMINEES PTY LTD	470,588	0.82%
20	MRS ERICA MARGARET STRONG	450,000	0.78%
	TOTAL	35,549,588	61.83%

Shares Range	No. of Holders	No. of Shares
1 – 1,000	35	7,017
1,001 – 5,000	54	178,135
5,001 – 10,000	66	613,062
10,001 – 100,000	258	9,854,334
100,001 and over	78	46,833,635
	491	57,486,183
Number holding less than a marketable parcel size of 8,333 shares at $0.06 per share	102	268,533

Shareholders by Location	No. of Holders	No. of Shares
Australian holders	461	39,970,481
Overseas holders	30	17,515,702
	491	57,486,183

ASX ADDITIONAL INFORMATION (CONTINUED)

VOTING RIGHTS

In accordance with the Company's Constitution, on a show of hands every shareholder present in person or by proxy, attorney or representative of a shareholder has one vote and on a poll every shareholder present in person or by proxy, attorney or representative of a shareholder has in respect of fully paid shares, one vote for every share held. No class of option holder has a right to vote, however the shares issued upon exercise of options will rank pari passu with the then existing issued fully paid ordinary shares.

SUBSTANTIAL SHAREHOLDERS AS AT 31 AUGUST 2009

		No. of Shares Held	% Held
1	BIOTECH CAPITAL LTD	8,823,530	15.35%
2	THE UNIVERSITY OF WARWICK	3,469,187	6.03%
3	MR DAVID MCAULIFFE	2,946,611	5.13%

UNLISTED OPTIONS

		No. of Options Held	% Held
1	DR WHYMENT, ANDREW	699,258	17.52%
2	MR MCAULIFFE, DAVID	500,000	12.52%
3	DR TREHERNE, MARK	500,000	12.52%
6	DR KELLY, JAMES	225,000	5.64%
7	DR DIXON, ALISTAIR	208,333	5.22%
8	DR RUSH, ANTHONY	181,974	4.56%
9	MS HARWOOD, MELISSA	181,974	4.56%
10	DR FANG, XIN	181,974	4.56%
11	MR HANNAFORD, JOHN	150,000	3.76%
12	DR EVANS, TONY	150,000	3.76%
13	DR STEVENS, EDWARD	100,000	2.50%
14	DR WEI, HAIFENG	90,987	2.28%
15	DR JONES, MARTIN	90,987	2.28%
		3,992,255	100.00%