



QRxPharma Limited

ABN 16 102 254 151

ASX Preliminary final report – 30 June 2012

Lodged with the ASX under Listing Rule 4.3A

The report is to be read in conjunction with the Statutory Annual Report dated 30 August 2012 and any public announcements made during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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Appendix 4E Preliminary Final Report

Appendix 4E Preliminary Final Report

QRxPharma Limited
ABN 16 102 254 151

1. Reporting Period

Report for the financial year ended 30 June 2012.

Previous corresponding period is the financial year ended 30 June 2011.

2. Results for announcement to the market

				SA'000
Revenue from ordinary activities (<i>item 2.1</i>)	Up	984%	To	1,919
Net loss from ordinary activities after tax attributable to members (<i>item 2.2</i>)	Down	38%	To	(15,949)
Net loss for the period attributable to members (<i>item 2.3</i>)	Down	38%	To	(15,949)
Brief explanation of any of the figures reported above necessary to enable the figures to be understood (<i>item 2.6</i>)				
Revenue				
<p>The increase in revenue is due to the partial recognition of a non-refundable, non-creditable up front signing fee of \$5.9 million, (USD 6 million) received from Actavis, Inc on the signing of a binding Letter of Intent on 20 December 2011 to commercialise immediate release MOXDUIO[®] for the US market. The License and Option Agreement to launch the immediate release Dual Opioid[®] into the \$2.5 billion US acute pain market place was finalised in March 2012. The fee revenue will be recognised from the date of the signing of the LOI to an anticipated immediate release MOXDUIO product launch date in 2013. At 30 June 2012, the Group has recognised \$1.8 million as revenue and \$4.1 million as deferred revenue.</p>				
Net loss from ordinary activities				
<p>The net loss of \$16 million (2011: net loss \$25.6 million) from ordinary activities was in line with the expectations of the Board of Directors, and resulted from fulfilling research and development activities in the progression of the Company's clinical pipeline candidates. Total expenditure decreased with the completion of the clinical trial programme and lodgement of the Company's New Drug Application (NDA) for immediate release MOXDUIO with the US Food and Drug Administration (FDA).</p>				
<p>The net loss includes the following key items:</p> <ul style="list-style-type: none"> ○ research and development expenditure of \$9.2 million (2011: \$15.0 million) was primarily incurred in completing the Company's clinical trial programme for immediate release MOXDUIO and finalising the lodgement of the NDA with the FDA. The Company also completed two Phase I clinical trials for MOXDUIO CR, its controlled release formulation. ○ total employee benefits expense of \$7.2 million (2011: \$5.8 million) includes a full year of head count cost of prior year recruitment, additional headcount recruited this financial year and an increase in employee non cash share based charges of \$0.6 million. (2012: \$2.2 million vs 2011: \$1.6 million) ○ business development expenses of \$1.3 million (2011: \$1.6 million) associated with MOXDUIO. ○ foreign exchange gain of \$2.0 million (2011: \$2.0 million loss) 				

Dividends (*items 2.4 – 2.5*)

It is not proposed to pay a dividend.

3. Statement of comprehensive income - Refer to the attached Annual financial report

Appendix 4E Preliminary Final Report

4. **Balance sheet** - Refer to the attached Annual financial report
5. **Statement of cash flows** - Refer to the attached Annual financial report
6. **Statement of changes in equity** - Refer to the attached Annual financial report
7. **Dividends** – It is not proposed to pay a dividend.
8. **Dividends** – It is not proposed to pay a dividend.
9. **Net Tangible Assets per Security** (*item 9*)

	30 June 2012	30 June 2011
Net tangible assets per ordinary share	\$0.126	\$0.052

10. The Group did not acquire or lose control over any entities during the period. (2011: none)
11. The Group had no associates or joint venture entities.
12. **Commentary on the results** (*item 14*)

At 30 June 2012, the Company had cash reserves of \$23 million (2011: \$7.3 million). The operating results for the year ended 30 June 2012 are reflective of the Company's activities to progress the programme for its lead compound, immediate release MOXDUO, while continuing to advance its other product candidates.

Key Achievements

QRxPharma is developing proprietary Dual Opioid formulations for treating patients with moderate to severe acute or chronic pain. The Company's patented Dual Opioid product pipeline combines morphine and oxycodone to potentially offer physicians broader treatment options than traditional opioids, a large and growing market hindered by older therapies with significant side effects. The Company's Dual Opioids are first in class. At present there are no combination opioid - opioid products available commercially anywhere in the world.

The Dual Opioid pipeline includes three complementary products to address various pain management needs: immediate release MOXDUO, an oral capsule for the treatment of moderate to severe acute pain; MOXDUO CR, a controlled-release oral tablet for chronic pain; and MOXDUO IV, an intravenous formulation for hospital use.

QRxPharma initiated the filing of its New Drug Application (NDA) with the United States Food and Drug Administration (FDA) in July 2011 and it was accepted as an approvable package by the FDA in November 2011. The FDA issued a Complete Response Letter (CRL) in respect to the NDA in June 2012, which was followed by a Review Meeting with the Agency in August 2012. The FDA requested further information regarding data filed as part of the MOXDUO NDA and additional analysis of trials completed to date, including Study 022 which evaluated oxygen desaturation levels in patients receiving MOXDUO compared to those administered morphine or oxycodone alone at equi-analgesic doses. The Company believes the review of additional data and subsequent refiling of the NDA could result in a positive decision from the FDA by mid-2013.

In December 2011 the Company signed a binding Letter of Intent with Actavis, Inc for the formation of a strategic collaboration to commercialise immediate release MOXDUO in the US marketplace. This was followed in March 2012 with the execution a License and Option Agreement (LOA) which finalised legal terms and conditions for the commercialisation. The LOA affords Actavis, Inc the exclusive rights to commercialise and further develop immediate release MOXDUO while assuming all costs for product launch as well as ongoing marketing and sales efforts in the US. QRxPharma retains a co-promotion / profit share right whereby the Company can create its own sales force and provide up to 25% of the effective selling effort to US prescribers at any time following the first 12 months of launch.

Appendix 4E Preliminary Final Report

Both QRxPharma and Actavis remain confident in MOXDUO as a therapeutic option for patients and remain committed to launching this immediate release Dual Opioid into the \$2.5 billion US acute pain market place.

During the year, QRxPharma also successfully completed two Phase I studies for MOXDUO CR, the controlled release Dual Opioid product utilising a 3:2 ratio of morphine and oxycodone. The proprietary MOXDUO CR formulation, encompassing both sustained delivery technology as well as abuse deterrent and tamper resistant features, is designed to provide at least 12 hours of analgesia in patients suffering from moderate to severe chronic pain including cancer, lower back, osteoarthritis and neuropathic. The clinical trials compared blood levels of MOXDUO CR's components to OxyContin[®] and MS Contin[®] and demonstrated MOXDUO CR's superior results, with sustained blood levels for up to 24 hours. Further studies indicated MOXDUO CR's increased resistance to tampering.

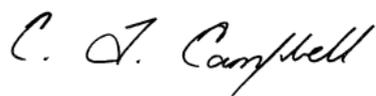
In addition, the Company also strengthened its' intellectual property portfolio with the announcement in May 2012, that the United States Patent and Trademark Office (USPTO) issued the Company US Patent No 8,182,837, expiring in 2023. This patent is directed to a pain treatment method which utilises MOXDUO's composition as a defined ratio of morphine/oxycodone (3/2). The patent covers oral administration of two Dual Opioid compositions: (1) immediate release MOXDUO for the treatment of acute pain and (2) MOXDUO CR for the treatment of chronic pain.

13. Status of audit (items 15 to 17)

This report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. This report and the accounts upon which the report is based use the same accounting policies.

This preliminary financial report is based on accounts which have been audited. The audit report, which is unqualified, will be made available when the Company lodges its Statutory Annual Report.

The entity has a formally constituted audit committee.



Chris J Campbell
Company Secretary
QRxPharma Limited
30 August 2012

QRxPharma Limited ABN 16 102 254 151
Annual financial report - 30 June 2012

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These financial statements are the consolidated financial statements of the consolidated entity consisting of QRxPharma Limited and its subsidiaries. The financial statements are presented in the Australian currency.

QRxPharma Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

QRxPharma Limited
Level 1, 194 Miller Street
North Sydney NSW 2060.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities both of which are not part of this financial report.

The financial statements were authorised for issue by the directors on 29 August 2012. The directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at the Investor Relations tab on our website: www.qrxpharma.com.

QRxPharma Limited
Consolidated statement of comprehensive income
For the year ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
Revenue from continuing operations	5	1,919	177
Other income	6	2,266	748
Research and development	8	(9,162)	(15,008)
Employee benefits expense	8	(7,192)	(5,827)
Depreciation and amortisation	8	(65)	(66)
Business development		(1,343)	(1,651)
Other expenses		(2,468)	(1,918)
Net foreign exchange (loss)	8	<u>-</u>	<u>(2,090)</u>
Loss before income tax		(16,045)	(25,635)
Income tax benefit	9	<u>-</u>	<u>-</u>
Loss from continuing operations		<u>(16,045)</u>	<u>(25,635)</u>
Loss for the year		(16,045)	(25,635)
Other comprehensive income/ (loss)			
Exchange differences on translation of foreign operations		<u>82</u>	<u>(48)</u>
Other comprehensive income/ (loss) for the year, net of tax		82	(48)
Total comprehensive (loss) for the year		(15,963)	(25,683)
Loss for the year is attributable to:			
Owners of QRxPharma Limited		(15,949)	(25,573)
Non-controlling interests		<u>(96)</u>	<u>(62)</u>
		(16,045)	(25,635)
Total comprehensive (loss) is attributable to:			
Owners of QRxPharma Limited		(15,867)	(25,621)
Non-controlling interests		<u>(96)</u>	<u>(62)</u>
		(15,963)	(25,683)
Earnings per share for loss attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic loss per share	28	(11.2)	(21.7)
Diluted loss per share	28	(11.2)	(21.7)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

QRxPharma Limited
Consolidated balance sheet
As at 30 June 2012

	Notes	2012 \$'000	2011 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	10	22,950	7,291
Trade and other receivables	11	1,187	60
Other current assets	12	<u>483</u>	<u>295</u>
Total current assets		<u>24,620</u>	<u>7,646</u>
Non-current assets			
Available-for-sale financial assets	13	-	407
Property, plant and equipment	14	191	196
Intangible assets	15	<u>-</u>	<u>-</u>
Total non-current assets		<u>191</u>	<u>603</u>
Total assets		<u>24,811</u>	<u>8,249</u>
LIABILITIES			
Current liabilities			
Trade and other payables	16	2,558	1,722
Other current liabilities	17	<u>4,055</u>	<u>-</u>
Total current liabilities		<u>6,613</u>	<u>1,722</u>
Total liabilities		<u>6,613</u>	<u>1,722</u>
Net assets		<u>18,198</u>	<u>6,527</u>
EQUITY			
Contributed equity	18	144,281	118,809
Reserves	19(a)	11,269	9,025
Accumulated losses	19(b)	<u>(137,306)</u>	<u>(121,357)</u>
Capital and reserves attributable to owners of QRxPharma Limited		18,244	6,477
Non-controlling interests	20	<u>(46)</u>	<u>50</u>
Total equity		<u>18,198</u>	<u>6,527</u>

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

QRxPharma Limited
Consolidated statement of changes in equity
For the year ended 30 June 2012

	Attributable to the owners of QRxPharma Limited				Non- controlling interests \$'000	Total equity \$'000
	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000		
Balance at 1 July 2010	99,969	7,489	(95,784)	11,674	105	11,779
Loss for the year as reported in the 2011 financial statements	-	-	(25,573)	(25,573)	(62)	(25,635)
Other comprehensive (loss)	-	(48)	-	(48)	-	(48)
Total comprehensive loss for the year	-	(48)	(25,573)	(25,621)	(62)	(25,683)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	18,840	-	-	18,840	-	18,840
Employee share scheme	-	1,591	-	1,591	-	1,591
Transactions with non-controlling interest reserve	-	(7)	-	(7)	7	-
	<u>18,840</u>	<u>1,536</u>	<u>(25,573)</u>	<u>(5,197)</u>	<u>(55)</u>	<u>(5,252)</u>
Balance at 30 June 2011	118,809	9,025	(121,357)	6,477	50	6,527
Loss for the year	-	-	(15,949)	(15,949)	(96)	(16,045)
Other comprehensive income	-	82	-	82	-	82
Total comprehensive loss for the year	-	82	(15,949)	(15,867)	(96)	(15,963)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	25,472	-	-	25,472	-	25,472
Employee share scheme	-	2,162	-	2,162	-	2,162
	<u>25,472</u>	<u>2,244</u>	<u>(15,949)</u>	<u>11,767</u>	<u>(96)</u>	<u>11,671</u>
Balance at 30 June 2012	144,281	11,269	(137,306)	18,244	(46)	18,198

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

QRxPharma Limited
Consolidated statement of cash flows
For the year ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		<u>(17,760)</u>	<u>(23,114)</u>
Interest received		114	169
Grant received	6	-	748
License fee received		<u>5,918</u>	<u>-</u>
Net cash (outflow) from operating activities	27	<u>(11,728)</u>	<u>(22,197)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		<u>(60)</u>	<u>(22)</u>
Net cash (outflow) from investing activities		<u>(60)</u>	<u>(22)</u>
Cash flows from financing activities			
Proceeds from issue of shares	18	26,750	19,830
Payments made in relation to capital raising	18	<u>(1,278)</u>	<u>(990)</u>
Net cash inflow from financing activities		<u>25,472</u>	<u>18,840</u>
Net increase/ (decrease) in cash and cash equivalents		<u>13,684</u>	<u>(3,379)</u>
Cash and cash equivalents at the beginning of the financial year		7,291	12,760
Effects of exchange rate changes on cash and cash equivalents		<u>1,975</u>	<u>(2,090)</u>
Cash and cash equivalents at end of year	10	<u>22,950</u>	<u>7,291</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of QRxPharma Limited and its subsidiaries.

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. QRxPharma Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(ii) Compliance with IFRS

The consolidated financial statements of QRxPharma Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(iv) Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(v) Early adoption of standards

The group has elected not to apply any pronouncement before their operative date in the annual reporting period beginning 1 July 2011.

b) Going concern

The Group has experienced significant recurring operating losses and negative cash flows from operating activities since its inception. During the year the Company successfully raised \$25.5 million net of transaction costs, through a share placement and a rights issue and at 30 June 2012, the Group holds cash and cash equivalents of \$23 million (2011: \$7.3 million).

Having carefully assessed the financial and operating implications of the above matters, the directors consider that the Group will be able to pay its debts as and when they fall due for at least 12 months following the date of these financial statements and that it is appropriate for the financial statements to be prepared on a going concern basis.

c) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of QRxPharma Limited ("company" or "parent entity") as at 30 June 2012 and the results of all subsidiaries for the year then ended. QRxPharma Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively. Investments in subsidiaries are accounted for at cost in the separate financial statements of QRxPharma Limited.

1 Summary of significant accounting policies (continued)

c) Principles of consolidation (continued)

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of QRxPharma Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss.

d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive management team.

e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is QRxPharma Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses are presented in the income statement on a net basis within other income or net foreign exchange loss.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each profit and loss are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the profit and loss as part of the gain or loss on sale where applicable.

f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns and trade allowances. The Group recognises revenue when the amount of revenue can be reliably measured, it is

1 Summary of significant accounting policies (continued)

f) Revenue recognition (continued)

probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on current available information, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Tax consolidation legislation

QRxPharma Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, QRxPharma Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

h) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

i) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

1 Summary of significant accounting policies (continued)

j) Grant income

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

k) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

l) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (note 11).

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in profit or loss within other income or other expenses in the period in which they arise.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of

1 Summary of significant accounting policies (continued)

l) Investments and other financial assets (continued)

Impairment (continued)

the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(i) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(ii) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

m) Property, plant and equipment

Property, plant and equipment are stated at historical costs less depreciation.

Depreciation on plant and equipment is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Plant and equipment	4 years
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The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

n) Intangible assets

(i) Intellectual property

Costs incurred in acquiring intellectual property are capitalized and amortised on a straight line basis of the period of the expected benefit.

Costs include only those costs directly attributable to the acquisition of the intellectual property.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

(ii) Research and development

Research expenditure on internal development projects is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

1 Summary of significant accounting policies (continued)

o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

p) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 24). Payments made under operating leases (net of any incentive received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

q) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

The Group does not maintain a Group superannuation plan. The Group makes fixed percentage contributions for all Australian resident employees to complying third party superannuation funds and for US resident employees to complying pension funds if requested. The Group's legal or constructive obligation is limited to these contributions.

Contributions to complying third party superannuation funds and pension plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the QRxPharma Limited Employee Share Option Plan. Information relating to this scheme is set out in note 30.

The fair value of options granted under the QRxPharma Limited Employee Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses in accordance with the terms of employment contracts. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Employee benefit on-costs

Employee benefit on-costs, are recognised and included in the employee benefit liabilities and costs when the employee benefits to which they relate are recognised.

(vii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

1 Summary of significant accounting policies (continued)

r) Contributed Equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

s) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

t) Derivatives

Derivatives that do not qualify for hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in other income or other expenses.

u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

v) Rounding of amounts

The Company is a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

w) Parent entity financial information

The financial information for the parent entity, QRxPharma Limited, disclosed in note 29 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries are accounted for at cost in the financial statements of QRxPharma Limited.

(ii) Tax consolidation legislation

QRxPharma Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, QRxPharma Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

(iii) Share based payments

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

1 Summary of significant accounting policies (continued)

x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

(i) *AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The Group has not yet decided when to adopt AASB 9.

(ii) *AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. QRxPharma Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

(iii) *AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

Amendments made to AASB 7 *Financial Instruments: Disclosures* in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. They are not expected to have any significant impact on the Group's disclosures. The Group intends to apply the amendment from 1 July 2012.

(iv) *AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Group will apply the amendment from 1 July 2012. It is currently evaluating the impact of the amendment.

(v) *AASB 2010-9 Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (effective from 1 July 2011) and *AASB 2010-10 Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters* (effective from 1 July 2013)

AASB 1 *First-time Adoption of Australian Accounting Standards* was amended in December 2010 by eliminating references to fixed dates for one exemption and one exception dealing with financial assets and liabilities. The AASB also introduced a new exemption for entities that resume presenting their financial statements in accordance with Australian Accounting Standards after having been subject to severe hyperinflation. Neither of these amendments will affect the financial statements of the Group.

(vi) *AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement.

1 Summary of significant accounting policies (continued)

(x) New accounting standards and interpretations (continued)

Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. As the Group is not party to any joint arrangements, this standard will not have any impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The Group is still assessing the impact of these amendments.

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(vii) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from ASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

(viii) Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. The new rules will not affect the financial statements of the Group.

(ix) AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 July 2012.

(x) AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

(xi) AASB 2011-5 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation and AASB 2011-6 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements

AASB 2011-5 and AASB 2011-6 provide relief from consolidation, the equity method and proportionate consolidation to not-for-profit entities and entities reporting under the reduced disclosure regime under certain circumstances. QRxPharma Limited is listed on the ASX and is not eligible to adopt the reduced disclosure regime. Therefore this will not affect the financial statements of the Group.

1 Summary of significant accounting policies (continued)

(x) New accounting standards and interpretations (continued)

(xii) *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) and Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (effective 1 January 2014 and 1 January 2013 respectively)*

In December 2011, the IASB made amendments to the application guidance in IAS 32 Financial Instruments: Presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the IASB has also introduced more extensive disclosure requirements into IFRS 7 which will apply from 1 January 2013. The AASB is expected to make equivalent changes to IAS 32 and AASB 7 shortly. When they become applicable, the Group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The Group intends to apply the new rules for the first time in the financial year commencing 1 July 2013.

2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, not as trading or other speculative instruments. Cash and cash equivalents are invested exclusively with A rated financial institutions, at a minimum, with capital preservation being the stated investment objective. Risk management is carried out under policies approved by the board of directors.

The Group holds the following financial instruments:

	2012 \$'000	2011 \$'000
Financial assets		
Cash and cash equivalents	22,950	7,291
Trade and other receivables	1,187	60
Available for sale financial assets	-	407
	24,137	7,758
Financial liabilities		
Trade and other payables	2,558	1,722
Other current liabilities	4,055	-
	6,613	1,722

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from currency exposure to the US dollar and Euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency.

During the year, the Group converted A\$23.75 million at an average AUD to USD exchange rate of US\$1.102

The Group's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2012			30 June 2011		
	USD \$'000	EUR \$'000	GBP \$'000	USD \$'000	EUR \$'000	GBP \$'000
Cash at bank	563	2	29	239	-	-
Term deposits	22,047	-	-	6,716	105	-
Trade payables	14	-	-	10	-	-
Other current liabilities	4,132	-	-	-	-	-

Group sensitivity

Based on the financial instruments held at 30 June 2012, had the Australian dollar weakened / strengthened by 15% (2011 – 15%) against the US dollar with all other variables held constant, the Group's post-tax loss for the year would have been \$4.6 million lower / \$3.4 million higher (2011 – \$1.1 million lower / \$0.8 million higher), mainly as a result of foreign exchange gains / losses on translation of US dollar denominated financial instruments as detailed in the above table. The Group's exposure to other foreign exchange movements is not material.

2 Financial risk management (continued)

(ii) Price risk

The Group and the parent entity are not exposed to equity securities price risk or commodity price risk.

(iii) Cash flow and interest rate risk

The Group's main interest rate risk arises from the holding of cash and cash equivalents. During the year, the Group held significant bank accepted term deposit interest-bearing assets exposing the Group's income and operating cash flows to changes in market interest rates.

The value of borrowings at 30 June 2012 was \$nil (2011 - \$nil), thus limiting the Group's exposure to any cash flow risk in relation to liabilities.

Group sensitivity

As at 30 June 2012, if interest rates had changed by -25 / + 40 basis points (2011: -12 / + 40 basis points) from the year-end rates with all other variables held constant, the post-tax loss for the year would have been \$21,000 higher / \$13,000 lower (2011 - \$5,000 higher / \$1,000 lower), mainly as a result of lower / higher interest income from cash and cash equivalents.

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are acceptable. At 30 June 2012, cash equivalents were held with financial institutions rated Aa2 by Moody's.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities.

The Group has experienced recurring operating losses and operating cash outflows since inception to 30 June 2012. Due to negative operating cash flow position the Group has not committed to any credit facilities and relied upon equity financing through private and public equity investors.

The Group entity's exposure to liquidity risk is restricted to the value of outstanding trade creditors. Trade payables generally have 30 day payment terms, and at 30 June 2012, the Group had no overdue liabilities. The value of trade creditors at 30 June 2012 for the Group was \$757,000 (2011 - \$935,000) which is payable within 1 month of year end and at 30 June 2012, the entity carried cash and cash equivalents of \$23 million (2011 - \$7.3 million). Other payables for the Group include accruals for employee benefits and other accruals to the value of \$1,170,000 (2011 - \$787,000).

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices for similar instruments and recent transactions are used to estimate fair value. The Group has fully impaired the available-for-sale financial assets to \$nil at 30 June 2012.

The carrying value of trade and other payables is assumed to approximate their fair values due to their short-term nature.

Management monitors rolling forecasts of the group's liquidity reserve and cash and cash equivalents on the basis of expected cash flows. The group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these.

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices for similar instruments and recent transactions are used to estimate fair value.

The level 3 instrument was fully written down during the financial period to 30 June 2012.

The carrying value of trade and other payables is assumed to approximate their fair values due to their short-term nature.

2 Financial risk management (continued)

Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk, foreign exchange risk and other price risk.

30 June 2012	Carrying amount \$'000	Foreign exchange risk				Interest rate risk			
		-15% Profit \$'000	Equity \$'000	+15% Profit \$'000	Equity \$'000	-12bps Profit \$'000	Equity \$'000	+40bps Profit \$'000	Equity \$'000
Financial assets									
Cash and cash equivalents	22,950	3,852	-	(2,847)	-	(13)	-	(1)	-
Financial liabilities									
Trade payables	757	2	-	(2)	-	-	-	-	-
Other current liabilities	4,055	716	-	(529)	-	-	-	-	-
Total increase/ (decrease)		4,570	-	(3,378)	-	(13)	-	(1)	-

30 June 2011	Carrying amount \$'000	Foreign exchange risk				Interest rate risk			
		-15% Profit \$'000	Equity \$'000	+15% Profit \$'000	Equity \$'000	-25bps Profit \$'000	Equity \$'000	+40bps Profit \$'000	Equity \$'000
Financial assets									
Cash and cash equivalents	7,291	1,143	-	(845)	-	(1)	-	5	-
Financial liabilities									
Trade payables	935	2	-	1	-	-	-	-	-
Total increase/ (decrease)		1,145	-	(844)	-	(1)	-	5	-

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Research and development expenditure

The Group has expensed all internal research and development expenditure incurred during the year as the costs relate to the initial expenditure for research and development of biopharmaceutical products and the generation of future economic benefits are not considered certain. It was considered appropriate to expense the research and development costs as they did not meet the criteria to be capitalised under AASB 138.

Impairment of intangible assets

The Group reviews definite life intangibles for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Group makes estimates and assumptions about the recoverability of intellectual property. Where the carrying value of the intellectual property exceeds the recoverable amount, an impairment loss is recognised to record the intellectual property at its recoverable amount.

Black-Scholes option pricing model

During the year, the Group expensed \$2.2 million of share based payments as determined through the application of the Black-Scholes option pricing model. The Black-Scholes model is dependent on a number of variables and estimates fully described in note 30.

Impairment of available-for-sale financial assets

The Group follows the guidance of AASB 139 Financial Instruments: Recognition and Measurement to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

In the 2012 financial year, the fair value of the relevant asset was assessed and determined to be \$nil at 30 June 2012.

Revenue Recognition

The Group is recognising revenue associated with the receipt during the year of a non-refundable, non-creditable up front signing fee of AU\$5.9 million (US\$6 million) from date of receipt to the anticipated product launch date in 2013.

The Group recognised \$1.8 million of revenue during the year and has deferred \$4.1 million.

4 Segment information

Based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources, the Group has determined that it operates within a single operating segment. The operating segment is that of the research and development of biopharmaceutical products for commercial sale. The Group's operations during the year were predominantly in Australia.

5 Revenue

	2012	2011
	\$'000	\$'000
From continuing operations		
License fee received	1,805	-
Interest	114	177
	1,919	177

On 20 December 2011, the Company signed a binding Letter of Intent (LOI) with Actavis Inc to commercialise immediate release MOXDUO in the USA. The LOI was secured by a non-refundable, non-creditable up front signing fee of AU\$5.9 million (US\$6 million). The fee revenue will be recognised from the date of the signing of the LOI to the anticipated immediate release MOXDUO product launch date. The Group has recognised \$1.8 million as revenue and \$4.1 million as deferred revenue in the period to 30 June 2012.

6 Other income

	2012	2011
	\$'000	\$'000
Sale of derivative financial instrument	7	-
Foreign exchange gain	1,975	-
Grant income	-	748
	2,266	748

7 Derivative financial instrument

During the year the Group purchased a number of foreign exchange option contracts at a cost of \$152,000 to protect against adverse movements between the AU\$ and US\$. These option contracts were not utilised during the period and were repurchased by the bank for \$291,000 netting the Group a gain on sale of foreign currency option contracts of \$139,000. There were no contracts on hand at 30 June 2012.

8 Expenses

	2012	2011
	\$'000	\$'000
Loss before income tax includes the following specific expenses:		
<i>Depreciation and amortisation</i>		
Plant and equipment	65	66
<i>Net foreign exchange loss</i>	-	2,090
<i>Employee benefit expense</i>		
Employee benefit expense	4,965	4,175
Defined contribution superannuation expense	65	61
Share-based payments	2,162	1,591
	7,192	5,827
<i>Research and development</i>		
Research and development expensed	9,162	15,008
<i>Rental expenses relating to operating leases</i>		
Minimum lease payments	137	137

9 Income tax benefit

	2012 \$'000	2011 \$'000
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	<u>(16,045)</u>	<u>(25,635)</u>
Tax at the Australian tax rate of 30% (2011 – 30%)	<u>(4,814)</u>	<u>(7,690)</u>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	649	476
Impairment of financial asset	<u>122</u>	<u>-</u>
	<u>(4,043)</u>	<u>(7,214)</u>
Adjustment for current tax of prior periods	1,083	910
Income tax losses not recognised	<u>2,960</u>	<u>6,304</u>
Income tax expense	<u>-</u>	<u>-</u>
	2012	2011
	\$'000	\$'000
(b) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	<u>97,511</u>	<u>87,645</u>
Potential tax benefit @ 30%	<u>29,253</u>	<u>26,294</u>

No deferred tax asset has been recognised for the tax losses and timing differences generated from operations in both Australia and the USA, as the benefit for tax losses will only be obtained if:

- (i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
- (ii) the Group continues to comply with the conditions for deductibility imposed by tax legislation, and
- (iii) no changes in tax legislation adversely affect the Group in realising the benefit from the deduction for the losses.

(c) Tax consolidation legislation

QRxPharma Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 7 December 2002. The accounting policy in relation to this legislation is set out in note 1(g).

10 Current assets – Cash and cash equivalents

	2012 \$'000	2011 \$'000
Cash at bank	796	895
Term deposits	<u>22,154</u>	<u>6,396</u>
	<u>22,950</u>	<u>7,291</u>

(a) Cash at bank

These bear an average interest rate of 4.07% (2011: 4.5%) for the AUD accounts and 0% (2011: 0%) for the USD accounts.

(b) Term deposits

These are term deposits held in US dollars, Australian dollars and Euros.

The USD deposits bear an average fixed interest rate of 0.21% (2011: 0.12%). These deposits have a maturity of less than 3 months.

The EUR deposits bear an average fixed interest rate of 0.4% (2011: 0.7%). These deposits have a maturity of less than 3 months.

The AUD deposits bear an average fixed interest rate of 5.15% (2011: 0%). These deposits have a maturity of less than 3 months.

11 Current assets – Trade and other receivables

	2012 \$'000	2011 \$'000
Interest receivable	10	11
Other receivables	<u>1,177</u>	<u>49</u>
	<u>1,187</u>	<u>60</u>

Information about the Group's exposure to credit risk, foreign currency and interest rate risk in relation to other receivables is provided in note 2.

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value and at 30 June 2012 no receivables were impaired or past due (30 June 2011: nil).

12 Current assets – Other current assets

	2012 \$'000	2011 \$'000
Prepayments	<u>483</u>	<u>295</u>

13 Non-current assets – Available-for-sale financial asset

	2012 \$'000	2011 \$'000
Unlisted securities		
Equity securities	<u>-</u>	<u>407</u>

(a) Investments in related parties

At 30 June 2012, the carrying value of the available-for-sale financial asset, representing the 6.98% investment in Venomics Hong Kong Limited by Venomics Pty Limited was assessed and determined to be \$nil.

Accordingly, the investment has been fully impaired to \$nil at 30 June 2012.

14 Non-current assets – Property, plant and equipment

	\$'000
At 1 July 2010	
Cost	456
Accumulated depreciation	<u>(216)</u>
Net book amount	<u>240</u>
Year ended 30 June 2011	
Opening net book amount	240
Additions	22
Depreciation charge	<u>(66)</u>
Closing net book amount	<u>196</u>
At 30 June 2011	
Cost	478
Accumulated depreciation	<u>(282)</u>
Net book amount	<u>196</u>
Year ended 30 June 2012	
Opening net book amount	196
Additions	60
Depreciation charge	<u>(65)</u>
Closing net book amount	<u>191</u>
At 30 June 2012	
Cost	538
Accumulated depreciation	<u>(347)</u>
Net book amount	<u>191</u>

15 Non-current assets – Intangible assets

	Patents, trademarks and other rights \$'000	Other intangible assets \$'000	Total \$'000
Year ended 30 June 2011			
Opening net book amount	-	-	-
Impairment of intellectual property	-	-	-
Amortisation charge	-	-	-
Closing net book amount	<u>-</u>	<u>-</u>	<u>-</u>
At 30 June 2011			
Cost	15,502	889	16,391
Accumulated amortisation and impairment	<u>(15,502)</u>	<u>(889)</u>	<u>(16,391)</u>
Net book amount	<u>-</u>	<u>-</u>	<u>-</u>

	Patents, trademarks and other rights \$'000	Other intangible assets \$'000	Total \$'000
Year ended 30 June 2012			
Opening net book amount	-	-	-
Impairment of intellectual property	-	-	-
Amortisation charge	-	-	-
Closing net book amount	<u>-</u>	<u>-</u>	<u>-</u>
At 30 June 2012			
Cost	15,502	889	16,391
Accumulated amortisation and impairment	<u>(15,502)</u>	<u>(889)</u>	<u>(16,391)</u>
Net book amount	<u>-</u>	<u>-</u>	<u>-</u>

16 Current liabilities - Trade and other payables

	2012 \$'000	2011 \$'000
Trade payables	757	935
Accrued employee benefits	1,025	595
Other payables	<u>776</u>	<u>192</u>
	<u>2,558</u>	<u>1,722</u>

Accrued employee benefits include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. It is expected that employees will use the full amount of accrued leave within the next 12 months.

17 Other current liabilities

	2012 \$'000	2011 \$'000
Deferred Revenue – see note 5	<u>4,055</u>	<u>-</u>

18 Contributed equity

	2012 Shares	2011 Shares	2012 \$'000	2011 \$'000
(a) Share capital				
Ordinary shares - fully paid	<u>144,577,206</u>	<u>125,824,127</u>	<u>144,281</u>	<u>118,809</u>

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$'000
30 June 2010	Balance	102,475,000		99,969
07 October 2010	Share placement – Tranche 1	3,871,250	\$0.85	3,291
08 November 2010	Exercise of employee options	10,000	\$0.65	7
08 November 2010	Exercise of employee options	35,000	\$0.20	7
09 November 2010	Share placement – Tranche 2	12,611,103	\$0.85	10,719
19 November 2010	Share purchase plan	6,771,774	\$0.85	5,756
13 May 2011	Exercise of employee options	50,000	\$1.00	50
	Less: Transaction costs arising on issue of shares	-		(990)
30 June 2011	Balance	125,824,127		118,809
28 July 2011	Share placement	17,241,379	\$1.45	25,000
02 August 2011	Exercise of employee options	30,000	\$0.20	6
02 August 2011	Exercise of employee options	20,000	\$0.65	13
30 August 2011	Rights Issue	1,046,351	\$1.45	1,517
26 September 2011	Exercise of employee options	20,000	\$0.20	4
02 November 2011	Exercise of employee options	8,000	\$0.20	2
02 November 2011	Exercise of employee options	5,000	\$0.65	3
02 November 2011	Exercise of employee options	50,000	\$0.84	42
19 December 2011	Exercise of employee options	33,333	\$0.65	22
31 January 2012	Exercise of employee options	7,000	\$0.20	1
31 January 2012	Exercise of employee options	3,125	\$0.65	2
31 January 2012	Exercise of employee options	8,333	\$0.84	7
01 February 2012	Exercise of employee options	25,000	\$0.20	5
06 February 2012	Exercise of employee options	50,000	\$0.60	30
06 February 2012	Exercise of employee options	50,000	\$0.20	10
06 February 2012	Exercise of employee options	10,000	\$0.20	2
03 March 2012	Exercise of employee options	3,125	\$0.65	2
03 March 2012	Exercise of employee options	8,333	\$0.84	7
19 March 2012	Exercise of employee options	16,600	\$0.65	11
22 March 2012	Exercise of employee options	25,000	\$0.20	5
22 March 2012	Exercise of employee options	15,000	\$0.65	10
17 April 2012	Exercise of employee options	20,000	\$0.65	13
17 April 2012	Exercise of employee options	20,000	\$0.20	4
18 May 2012	Exercise of employee options	37,500	\$0.84	32
	Less: Transaction costs arising on issue of shares	-		(1,278)
30 June 2012	Balance	<u>144,577,206</u>		<u>144,281</u>

During the year ended 30 June 2012, QRxPharma Limited successfully raised \$26.5 million (before expenses) as a result of a share placement raising \$25 million and a Rights Issue raising a further \$1.5 million. The issue price under the placement and rights issue was \$1.45 per share resulting in the issue of 18.3 million new ordinary shares.

(c) Ordinary shares

Each ordinary shareholder maintains, when present in person or by proxy or by attorney at any general meeting of the Company, the right to cast one vote for each ordinary share held.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

18 Contributed Equity (continued)

(d) Options

Information relating to the QRxPharma Limited Employee Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in note 30. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(e) Rights issue

On 22 July 2011 the Company invited its shareholders to subscribe to a rights issue of 7,153,275 ordinary shares at an issue price of \$1.45 per share on the basis of 1 share for every 20 fully paid ordinary shares held, with such shares to be issued on, 30 August 2011.

(f) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group predominantly uses equity to finance its projects. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets.

During the year QRxPharma Limited undertook a share placement and a rights issue to strengthen the Company's capital. Refer 18(b) above for further details.

19 Reserves and accumulated losses

	2012 \$'000	2011 \$'000
(a) Reserves		
Share-based payments reserve	10,646	8,484
Foreign currency translation reserve	167	85
Transactions with non-controlling interest reserve	<u>456</u>	<u>456</u>
	<u>11,269</u>	<u>9,025</u>
Movements:		
<i>Share-based payments reserve</i>		
Balance 1 July	8,484	6,893
Option expense	2,162	1,591
Non-controlling interest	<u>-</u>	<u>-</u>
Balance 30 June	<u>10,646</u>	<u>8,484</u>
<i>Foreign currency translation reserve</i>		
Balance 1 July	85	133
Currency translation differences arising during the year	<u>82</u>	<u>(48)</u>
Balance 30 June	<u>167</u>	<u>85</u>
<i>Transactions with non-controlling interest reserve</i>		
Balance 1 July	456	463
Issue of options in QRxPharma Limited to employee of Venomics Pty Limited	<u>-</u>	<u>(7)</u>
Balance 30 June	<u>456</u>	<u>456</u>
(b) Accumulated losses		
Movements in accumulated losses were as follows:		
	2012 \$'000	2011 \$'000
Balance at 1 July 2011	(121,357)	(95,784)
Net loss for the year	<u>(15,949)</u>	<u>(25,573)</u>
Balance 30 June 2012	<u>(137,306)</u>	<u>(121,357)</u>

19 Reserves and accumulated losses (continued)

(c) Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payment reserve is used to recognise:

- the fair value of options issued to employees but not exercised
- the fair value of shares issued to employees

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(e). The reserve will be recognised in profit and loss when the net investment is disposed.

(iii) Transactions with non-controlling interests

This reserve is used to record amounts which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

20 Non-controlling interests

	2012 \$'000	2011 \$'000
Interests in:		
Share capital	122	122
Reserves	122	122
Retained earnings	(290)	(194)
	(46)	50

21 Key management personnel disclosures

(a) Directors

The following persons were directors of QRxPharma Limited during the financial year:

(i) Chairman - non-executive

Dr Peter C Farrell

(ii) Executive director

Dr John W Holaday, Managing Director and Chief Executive Officer

(iii) Non-executive directors

Michael A Quinn

R Peter Campbell

Dr Gary W Pace, Consultant

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position
John W Holaday	Chief Executive Officer
Chris J Campbell	Chief Financial Officer
Edward M Rudnic	Chief Operating Officer (from 13 February 2012)
M. Janette Dixon	Vice President of Global Business Development
Richard A Paul	Executive Vice President Drug Development

All of the above persons except for Edward M Rudnic were also key management persons during the year ended 30 June 2011.

21 Key management personnel disclosures (continued)

(c) Key management personnel compensation

	2012 \$	2011 \$
Short-term employee benefits	2,061,061	1,659,142
Post-employment benefits	33,769	29,653
Share-based payments	<u>971,034</u>	<u>673,463</u>
	<u>3,065,864</u>	<u>2,362,258</u>

The Company has taken advantage of the relief provided by *Corporations Regulations* and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in the remuneration report which is not included in this financial report.

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report which is not included in this financial report.

(ii) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of QRxPharma Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2012	Balance at start of the year	Granted as compensation	Exercised	Forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of QRxPharma Limited							
Peter C Farrell	754,089	-	-	-	754,089	679,089	75,000
John W Holaday	1,355,452	250,000	-	-	1,605,452	1,180,452	425,000
Gary W Pace	552,726	-	-	-	552,726	477,726	75,000
Michael A Quinn	552,726	-	-	-	552,726	477,726	75,000
R Peter Campbell	391,635	-	-	-	391,635	316,635	75,000
Other key management personnel of the Group							
Chris J Campbell	765,226	200,000	(50,000)	-	915,226	596,476	318,750
Edward M Rudnic (from 13 February 2012)*	-	350,000	-	-	350,000	-	350,000
M. Janette Dixon	500,000	200,000	-	-	700,000	379,166	320,834
Richard A Paul	250,000	200,000	-	-	450,000	125,000	325,000

* Edward M Rudnic was appointed Chief Operating Officer on 13 February 2012. He was previously engaged as a consultant to the company for which he received 235,000 options. Additionally he has received 70,000 options as a member of the Company's Scientific Advisory Board.

2011	Balance at start of the year	Granted as compensation	Exercised	Forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of QRxPharma Limited							
Peter C Farrell	604,089	150,000	-	-	754,089	604,089	150,000
John W Holaday	1,105,452	250,000	-	-	1,355,452	955,452	400,000
Gary W Pace	402,726	150,000	-	-	552,726	402,726	150,000
Michael A Quinn	402,726	150,000	-	-	552,726	402,726	150,000
R Peter Campbell	241,635	150,000	-	-	391,635	241,635	150,000
Other key management personnel of the Group							
Chris J Campbell	602,726	162,500	-	-	765,226	506,893	258,333
M. Janette Dixon	350,000	150,000	-	-	500,000	187,500	312,500
Richard A Paul (from 15 November 2010)	-	250,000	-	-	250,000	-	250,000

21 Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel (continued)

(iii) Share holdings

The numbers of shares in the Company held during the financial year by each director of QRxPharma Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2012	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Name				
Directors of QRxPharma Limited				
Ordinary shares				
Peter C Farrell	1,815,540	-	49,827	1,865,367
John W Holaday	7,609,635	-	-	7,609,635
Gary W Pace	3,493,833	-	32,994	3,526,827
Michael A Quinn	8,480,662	-	24,660	8,505,322
R Peter Campbell	174,647	-	8,733	183,380
Other key management personnel of the Group				
Ordinary shares				
Chris J Campbell	42,647	50,000	2,133	94,780
Edward M Rudnic (from 13 February 2012)	-	-	-	-
M. Janette Dixon	240,000	-	(170,000)	70,000
Richard A Paul	-	-	-	-

2011	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Name				
Directors of QRxPharma Limited				
Ordinary shares				
Peter C Farrell	1,630,540	-	185,000	1,815,540
John W Holaday	7,609,635	-	-	7,609,635
Gary W Pace	3,380,083	-	113,750	3,493,833
Michael A Quinn	8,374,371	-	106,291	8,480,662
R Peter Campbell	102,000	-	72,647	174,647
Other key management personnel of the Group				
Ordinary shares				
Chris J Campbell	25,000	-	17,647	42,647
M. Janette Dixon	200,000	-	40,000	240,000
Richard A Paul (from 15 November 2010)	-	-	-	-

(e) Other transactions with key management personnel

During the year, the Company directly engaged and contracted the services of certain key management personnel to perform consulting services for the Group. The total amount paid to key management personnel for contracted services rendered during the year amounted to \$301,775 (2011: \$82,699).

22 Remuneration of auditors

	2012 \$	2011 \$
(a) PricewaterhouseCoopers Australia		
<i>Audit and other assurance services</i>		
Audit and review of financial reports and other audit work under the Corporations Act 2001	<u>111,000</u>	<u>129,000</u>
Total remuneration for audit and other assurance services	<u>111,000</u>	<u>129,000</u>
<i>Taxation services</i>		
Tax compliance services	9,270	8,000
Tax consulting and advice	<u>106,788</u>	<u>25,280</u>
Total remuneration for taxation services	<u>116,058</u>	<u>33,280</u>
Total remuneration of PricewaterhouseCoopers Australia	<u>227,058</u>	<u>162,280</u>
(b) Network firms of PricewaterhouseCoopers Australia		
<i>Taxation services</i>		
Tax compliance services	33,974	35,022
International tax consulting and advice	<u>11,006</u>	<u>42,336</u>
Total remuneration of related practices of PricewaterhouseCoopers Australia	<u>44,980</u>	<u>77,358</u>
Total auditors remuneration	<u>272,038</u>	<u>239,638</u>

It is the Group's policy to employ PricewaterhouseCoopers on assignments in addition to their statutory audit duties where their expertise and experience with the Group are important. These assignments are principally in relation to tax advice where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

23 Contingencies

The Group acquired on 26 April 2007 a 100% interest in CNS Co, Inc. and through this acquisition now holds a license agreement with University of Alabama (USA). Under the terms of this license agreement the Group is obligated to meet certain milestone payments as advances against future royalties from the Torsin programme as follows:

- (i) USD 750,000 on commencement by the Group of Phase II clinical trial for any Torsin IP product;
- (ii) USD 1,500,000 on commencement by the Group of Phase III clinical trial for any Torsin IP product;
- (iii) USD 2,000,000 on the date of receipt by the Group of first market approval for each Torsin IP product.

The agreement may be terminated by the Group at any time on 6 months' notice to the University of Alabama and upon payment of all amounts due to University of Alabama to the effective termination date. The agreement will expire on the last expiry date of the patents licensed under the agreement.

24 Commitments

Operating Leases

The Group leases office premises in Sydney, Australia and New Jersey, USA. The leases have varying terms, escalation clauses and renewal rights.

2012	2011
\$'000	\$'000

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year	77	74
Later than one year but not later than five years	205	5
	<u>282</u>	<u>79</u>

25 Related party transactions

(a) Subsidiaries

Interests in subsidiaries are set out in note 26.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 21.

(c) Outstanding balances

There are no outstanding balances at the reporting date in relation to transactions with related parties.

26 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2012	2011
The Lynx Project Pty Limited	Australia	Ordinary	%	%
			100	100
Haempatch Pty Limited	Australia	Ordinary /Preference	100	100
QRxPharma, Inc.	USA	Ordinary	100	100
Venomics Pty Limited	Australia	Ordinary	80	80

27 Reconciliation of loss after income tax to net cash outflow from operating activities

	2012 \$'000	2011 \$'000
Loss for the year	(16,045)	(25,635)
Depreciation and amortisation	65	66
Non-cash employee benefits expense - share-based payments	2,162	1,591
Net exchange differences on cash and cash equivalents	(1,892)	2,042
Impairment of Venomics Hong Kong Limited	406	-
Change in operating assets and liabilities		
(Increase)/decrease in other receivables and prepayments	(1,315)	111
(Decrease)/increase in trade creditors and accruals	4,891	(372)
Net cash outflow from operating activities	(11,728)	(22,197)

28 Loss per share

	2012 Cents	2011 Cents
(a) Basic loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	(11.2)	(21.7)
(b) Diluted loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	(11.2)	(21.7)
(c) Reconciliations of earnings used in calculating earnings per share		
	2012 \$'000	2011 \$'000
<i>Basic loss per share</i>		
Loss attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(15,949)	(25,573)
<i>Diluted loss per share</i>		
Loss attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	(15,949)	(25,573)
(d) Weighted average number of shares used as the denominator		
	2012 Number	2011 Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic loss per share</i>	142,820,519	117,611,534
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share</i>	142,820,519	117,611,534

(e) Information concerning the classification of securities

(i) Options

Options are considered to be potential ordinary shares. The options are not included in the calculation of diluted earnings per share because they are anti-dilutive. These options could potentially dilute basic earnings per share in the future. Details relating to the options are set out in note 30.

29 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2012 \$'000	2011 \$'000
Balance Sheet		
Current assets	22,817	7,417
Total assets	24,313	8,750
Current liabilities	6,111	2,678
Total liabilities	6,111	2,678
<i>Shareholders' equity</i>		
Issued capital	144,281	118,809
Share based payment reserve	10,183	8,022
Accumulated losses	<u>(136,262)</u>	<u>(120,759)</u>
	<u>18,202</u>	<u>6,072</u>
(Loss) for the year	<u>(15,503)</u>	<u>(25,992)</u>
Total comprehensive (loss)	<u>(15,503)</u>	<u>(25,992)</u>

(b) Guarantees entered into by the parent entity

There are no guarantees entered into by the parent entity.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2012 or 30 June 2011.

(d) Commitments of the parent entity

The parent entity leases office premises in Sydney, Australia.

	2012 \$'000	2011 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	17	14
Later than one year but not later than five years	<u>-</u>	<u>3</u>
	<u>17</u>	<u>17</u>

(e) Convertible Note

During the year, QRxPharma Limited subscribed to 13,000 (2011: 37,500) convertible notes in Venomics Pty Limited at US\$4 face value per note. These notes carry an interest rate of 10% per annum (compounding monthly). Each note is convertible at QRxPharma Limited's request and it also has the ability to require redemption of some or all of the notes under certain conditions. 5,000 notes mature on 1 December 2012 and 8,000 on 29 June 2013 (2011: 20 December 2012).

At 30 June 2012, QRxPharma Limited assessed the carrying value of the notes and determined that these notes may not be recoverable. Accordingly, it has fully impaired the value of these notes to \$nil at 30 June 2012.

The convertible notes are carried in Venomics Pty Limited as a liability at amortised cost and the embedded derivative at fair value.

30 Share-based payments

(a) QRxPharma Employee Share Option Plan (ESOP)

The QRxPharma Limited Employee Share Option Plan (Limited ESOP) was approved by shareholders at the extraordinary general meeting of members held on 24th April 2007.

Under the Limited ESOP shares may be issued by the Company to eligible employees at an exercise price as determined by the remuneration committee, being not less than the share price on the grant date of the options. Any person who is employed by, or is a director, officer, executive or consultant of the Company or any related body corporate of the Company and whom the remuneration committee determines is eligible to participate in the option plan are eligible to participate in the plan. Employees may elect not to participate in the scheme.

The total number of shares that shall be reserved for issuance under the option plan shall not exceed ten per cent (10%) of the Diluted Ordinary Share Capital in the Company as at the date of issue of the relevant options under the option plan, subject to changes in capitalisation as provided in clause 16.3 of the option plan. The approval of the Company's shareholders must be obtained for any amendment to the option plan in relation to:

- (a) increasing the maximum aggregate number of shares that may be issued under the option plan;
- (b) any change in the class of employees eligible to receive options under the option plan;
- (c) any change in the shares reserved for issuance under the option plan; and
- (d) substitution of another entity in place of the Company as the issuer of shares under the option plan.

Options will lapse if they are not exercised before the expiration date or if the option holder leaves the employment of the Group. The board reserves discretion to waive the latter provisions.

Options granted under the plan carry no dividend or voting rights. The vesting period for each option issued up to 31 December 2008 is 3 years, or as varied by the board, one-third vesting 12 months from the date of grant and the balance vesting equally each year over the remaining two year period. Options issued from 1 January 2009 generally vest over 3 years with the initial vesting on the first anniversary of the date of the grant and subsequent vestings in 8 equal tranches on the first day of each calendar quarter over the following 2 years. When exercisable, each option is convertible into one ordinary share and entitles the holder to the same ordinary share rights as set out in note 18. Shares issued under the scheme may be sold at the expiration of any Restriction Agreement between the eligible employee and the Company. Such restrictions may be imposed by the remuneration committee upon the grant of options under the option plan and such restrictions will be contained in the Option Agreement between the eligible employee and the Company. In all other respects the shares rank equally with other fully paid ordinary shares on issue (refer to note 18(c)).

(b) Set out below are summaries of options granted under the plans:

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
2012								
31 March 2007	31 March 2014	\$1.42	402,726	-	-	-	402,726	402,726
14 April 2007	14 April 2014	\$1.00	2,013,630	-	-	-	2,013,630	2,013,630
25 May 2007	25 May 2014	\$1.00	502,726	-	-	-	502,726	502,726
25 May 2007	25 May 2014	\$2.00	1,448,450	-	-	(50,000)	1,398,450	1,398,450
1 September 2007	1 September 2014	\$1.70	50,000	-	-	-	50,000	50,000
1 October 2007	1 October 2014	\$1.45	75,000	-	-	-	75,000	75,000
9 October 2007	9 October 2014	\$1.34	50,000	-	-	-	50,000	50,000
1 January 2008	1 January 2015	\$1.11	200,000	-	-	-	200,000	200,000
1 April 2008	1 April 2015	\$1.04	75,000	-	-	-	75,000	75,000
1 April 2008	1 April 2015	\$1.05	600,000	-	-	-	600,000	600,000
1 October 2008	1 October 2015	\$0.60	50,000	-	(50,000)	-	-	-
1 January 2009	1 January 2016	\$0.20	295,000	-	(195,000)	-	100,000	100,000
31 August 2009	31 August 2016	\$0.65	467,500	-	(116,183)	(16,667)	334,650	306,763
1 October 2009	1 October 2016	\$0.90	150,000	-	-	-	150,000	137,500
16 November 2009	16 November 2016	\$1.12	300,000	-	-	-	300,000	250,000
1 January 2010	1 January 2017	\$0.78	100,000	-	-	-	100,000	83,333
17 February 2010	17 February 2017	\$0.84	565,000	-	(104,166)	-	460,834	345,626
24 March 2010	24 March 2014	\$1.26	295,000	-	-	-	295,000	221,250
1 July 2010	1 July 2017	\$1.15	225,000	-	-	-	225,000	131,250
24 August 2010	24 August 2017	\$0.95	50,000	-	-	-	50,000	29,167
1 October 2010	1 October 2017	\$0.93	150,000	-	-	-	150,000	75,000
25 October 2010	25 October 2014	\$1.24	25,000	-	-	-	25,000	12,500
08 November 2010	8 November 2017	\$1.00	850,000	-	-	-	850,000	425,000
1 January 2011	1 January 2018	\$1.40	1,330,000	-	-	(10,000)	1,320,000	660,000
1 January 2011	1 January 2015	\$2.00	310,000	-	-	-	310,000	155,000
7 July 2011	7 July 2018	\$1.70	-	150,000	-	-	150,000	-
28 September 2011	28 September 2018	\$1.22	-	15,000	-	-	15,000	-
18 November 2011	18 November 2018	\$1.60	-	250,000	-	-	250,000	-
23 January 2012	23 January 2019	\$1.50	-	1,400,000	-	-	1,400,000	-
23 January 2012	23 January 2016	\$2.15	-	300,000	-	-	300,000	-
1 April 2012	1 April 2019	\$1.72	-	350,000	-	-	350,000	-
Total			10,580,032	2,465,000	(465,349)	(76,667)	12,503,016	8,299,920
Weighted average exercise price			\$1.21	\$1.63	\$0.50	\$1.63	\$1.31	\$1.24

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
2011								
31 March 2007	31 March 2014	\$1.42	402,726	-	-	-	402,726	402,726
14 April 2007	14 April 2014	\$1.00	2,013,630	-	-	-	2,013,630	2,013,630
25 May 2007	25 May 2014	\$1.00	552,726	-	(50,000)	-	502,726	502,726
25 May 2007	25 May 2014	\$2.00	1,448,450	-	-	-	1,448,450	1,448,450
1 September 2007	1 September 2014	\$1.70	50,000	-	-	-	50,000	50,000
1 October 2007	1 October 2014	\$1.45	75,000	-	-	-	75,000	75,000
9 October 2007	9 October 2014	\$1.34	50,000	-	-	-	50,000	50,000
1 January 2008	1 January 2015	\$1.11	200,000	-	-	-	200,000	200,000
1 April 2008	1 April 2015	\$1.04	75,000	-	-	-	75,000	75,000
1 April 2008	1 April 2015	\$1.05	600,000	-	-	-	600,000	600,000
1 October 2008	1 October 2015	\$0.60	50,000	-	-	-	50,000	45,833
1 January 2009	1 January 2016	\$0.20	330,000	-	(35,000)	-	295,000	247,500
31 August 2009	31 August 2016	\$0.65	477,500	-	(10,000)	-	467,500	272,708
1 October 2009	1 October 2016	\$0.90	150,000	-	-	-	150,000	87,500
16 November 2009	16 November 2016	\$1.12	300,000	-	-	-	300,000	150,000
1 January 2010	1 January 2017	\$0.78	100,000	-	-	-	100,000	50,000
17 February 2010	17 February 2017	\$0.84	565,000	-	-	-	565,000	235,417
24 March 2010	24 March 2014	\$1.26	295,000	-	-	-	295,000	122,917
1 July 2010	1 July 2017	\$1.15	-	225,000	-	-	225,000	75,000
24 August 2010	24 August 2017	\$0.95	-	50,000	-	-	50,000	-
1 October 2010	1 October 2017	\$0.93	-	150,000	-	-	150,000	-
25 October 2010	25 October 2014	\$1.24	-	25,000	-	-	25,000	-
8 November 2010	8 November 2017	\$1.00	-	850,000	-	-	850,000	-
1 January 2011	1 January 2018	\$1.40	-	1,330,000	-	-	1,330,000	-
1 January 2011	1 January 2015	\$2.00	-	310,000	-	-	310,000	-
Total			7,735,032	2,940,000	(95,000)	-	10,580,032	6,704,407
Weighted average exercise price			\$1.17	\$1.30	\$0.67	\$0.00	\$1.21	\$1.22

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2012 was \$1.59 (2011 – \$1.09)

The weighted average remaining contractual life of the share options outstanding at the end of the period was 3.88 years. (2011 – 4.23 years)

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2012 was \$1.11 per option (2011 - \$0.78). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2012 included:

- (a) exercise price: \$1.22 to \$2.15 (2011 - \$0.90 to \$2.00)
- (b) grant date: 7 July 2011, 28 September 2011, 18 November 2011, 23 January 2012, 1 April 2012 (2011 - 1 July 2010, 24 August 2010, 1 October 2010, 25 October 2010, 8 November 2010, 1 January 2011)
- (c) expiry date: 7 July 2018, 28 September 2018, 18 November 2018, 23 January 2019, 23 January 2016, 1 April 2019 (2011 - 1 July 2017, 24 August 2017, 1 October 2017, 25 October 2014, 8 November 2017, 1 January 2018, 01 January 2015)
- (d) share price at grant date: \$1.22 to \$1.85 (2011 - \$0.93 to \$1.40)
- (e) expected price volatility of the Company's shares: 80% (2011 - 80%)
- (f) expected dividend yield: nil% (2011 - nil%)
- (g) risk-free interest rate: 4.09% (2011 - 5.3%)

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2012	2011
	\$'000	\$'000
Options issued under employee option plan	<u>2,162</u>	<u>1,591</u>

31 Events occurring after the balance sheet date

No significant events have occurred after the balance sheet date which would have a material impact on the financial results of the Group.