

# **QRxPharma Limited**

ABN 16 102 254 151

## **Annual report for the year ended 30 June 2010**

**QRxPharma Limited** ABN 16 102 254 151  
**Annual report - 30 June 2010**

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## Corporate directory

### Directors

Peter C Farrell PhD, ScD, AM  
*Non-Executive Chairman*

John W Holaday PhD  
*Managing Director and Chief Executive Officer*

R Peter Campbell FCA, FTIA

Gary W Pace PhD

Michael A Quinn MBA

### Secretary

Chris J Campbell CA

### Principal registered office in Australia

QRxPharma Limited  
Level 1  
194 Miller St  
North Sydney NSW 2060

### Share register

Link Market Services Limited  
Level 12  
680 George Street  
Sydney NSW 2000

### Auditor

PricewaterhouseCoopers  
Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
Sydney NSW 1171

### Solicitors

Dibbs Barker  
Level 8, Angel Place  
123 Pitt Street  
Sydney NSW 2000

### Stock exchange listings

QRxPharma Limited shares are listed on the Australian Securities Exchange.  
Listing Code: QRX

QRxPharma Limited American Depositary Receipts are listed on the OTCQX.  
Symbol: QRXPY

### Website address

[www.qrxpharma.com](http://www.qrxpharma.com)

## Letter from the Chairman

Dear Shareholder,

On behalf of the Board and management of QRxPharma, I am pleased to present our annual report for 2010.

The past twelve months represent a year of progress, scientific validation and prudent resource management. This discipline and commitment to build shareholder value has served our business interests well and sustained the Company on an upward trajectory.

Our primary initial objective still remains commercialisation of MoxDuo<sup>®</sup>IR, the Company's lead product candidate for the treatment of acute pain. With the successful completion of the MoxDuo IR combination rule study, the first of two pivotal registration trials, we've made significant progress towards this goal.

Having satisfied this filing requirement, we turned our attention to the second and final MoxDuo IR registration trial, a study to evaluate the effectiveness of MoxDuo IR in patients following total knee replacement (TKR) surgery. This trial was initiated in February 2010 and is projected to be completed towards the end of calendar 2010.

To date, more than 600 patients experiencing pain following bunionectomy and TKR surgery, as well as non-surgical patients with chronic pain, have received MoxDuo IR. Study results have consistently demonstrated MoxDuo IR's greater overall tolerability which has allowed surgeons, pain physicians and patients to achieve comparable or better pain relief with substantially fewer and less severe side-effects than current standards of care.

We expect to file our first New Drug Application (NDA) with the U.S. FDA in the first half of 2011 and launch our product in the U.S. in 2012. This represents our most near-term value driver and symbolises a significant inflection point – our evolution from product development to commercial realisation.

Certainly, the past year has been transformative for QRxPharma. We have advanced clinical development of our complementary Dual-Opioid<sup>®</sup> products with the successful completion of a Phase 2 comparative proof-of-concept study evaluating the efficacy and safety of MoxDuo IV (intravenous morphine and oxycodone) against IV morphine. This study was performed in Germany and was completed on a group of patients being treated for moderate to severe post-operative pain following hip replacement surgery. The results, once again, demonstrated better pain control, with at least a 50% reduction of clinically significant side effects when QRxPharma's Dual-Opioid formulation was used. In February 2010, we announced a strategic alliance with Chinese drug company, Aoxing Pharmaceutical Company (NYSE AMEX: AXN), for development of MoxDuo IV. Under the terms of the agreement, Aoxing will fund clinical development for the Chinese market in exchange for exclusive marketing rights in China. We retain ownership of the product and may use the clinical work completed by Aoxing for registration purposes outside China.

We also successfully completed a comparative proof-of-concept Phase I study with MoxDuo CR, a continuous release formulation, designed to provide 12 hours of pain relief in patients with moderate to severe pain. The purpose of the trial was to determine which of the various experimental formulations provided the optimum duration of drug levels in the blood. Based on these data, the Company remains on track to finalise the MoxDuo CR tablet in the first half of 2011.

In addition to our pain management programs, we have also continued development on our other pipeline programs including dystonia, Parkinson's, and Alzheimer's diseases. These programs are advanced in collaboration with our partners at the University of Alabama and the Michael J. Fox Foundation. In addition, we secured a strategic alliance with Liaoning Nuokang Medicines Co, the China based subsidiary of Nasdaq listed China Nuokang Biopharmaceuticals Inc (NASDAQ: NKBP) for the development and commercialization of our venomics assets in China.

In December 2009, we were able to bolster the Company's cash position by closing a capital raise of \$21.6 million. We are grateful and encouraged by the ongoing support from our shareholders along with new institutional investors who joined the register via the placement. This offering should enable us to complete the MoxDuo IR pivotal Phase 3 clinical trials and continue the development of the IV and CR programs with the overall goal of providing surgeons and pain physicians the opportunity to effectively manage patients' pain from hospital to home.

This is an exciting time for the Company and I would like to take this opportunity to thank my fellow Board of Director members, the management team, and the entire QRxPharma staff, in both Australia and the U.S.

We appreciate the continued support of our shareholders and look forward to successfully completing our planned initiatives for 2011 and then commercialising the first of our pain formulations in early 2012.



Peter C Farrell, PhD, ScD, AM  
Chairman

## CEO review

“Discovery consists of seeing what everybody has seen and thinking what nobody has thought” according to Albert Szent-Gyorgyi, winner of the 1937 Nobel Prize for the isolation of Vitamin C. Since the discovery of QRxPharma’s Dual-Opioids®, we’ve drawn inspiration from his words. Prof. Maree Smith at the University of Queensland challenged convention when she discovered that morphine and oxycodone when given together result in better pain relief with fewer side effects. We’ve embraced this discovery and conducted clinical trials that challenge convention and have the potential to change treatment paradigms. Simply, our goal is to develop a better way of managing pain.

QRxPharma’s lead candidate, MoxDuo IR, an immediate-release oral capsule currently completing pivotal Phase 3 studies, is the first patented analgesic product in the world that consists of two opioids. In multiple comparative studies evaluating its efficacy and safety against equianalgesic doses of morphine, oxycodone and Percocet® for the treatment of acute pain, data demonstrate MoxDuo IR’s greater overall tolerability allowing doctors and patients to achieve better pain relief with substantially fewer incidences of nausea, vomiting, constipation, dizziness, hypotension and other side effects.

The Company’s Dual-Opioid portfolio also includes two complementary products: MoxDuo CR, a 12-hour controlled-release oral tablet for chronic pain and MoxDuo IV, an intravenous formulation for moderate to severe hospital-based pain.

Our goal is to provide physicians and patients with different formulations of dual opioids for managing moderate to severe pain from hospital to home. With the successful completion of pivotal trials, we are able to quantitatively demonstrate the value of this product to partners, prescribers and patients.

### **MoxDuo IR: NDA Filing within Reach**

The past year has been exceptionally productive and I am proud to report the Company remains on target to file its first New Drug Application with the U.S. FDA in early 2011 for MoxDuo IR.

In April, the Company successfully completed its first pivotal Phase 3 study for MoxDuo IR. Required for New Drug Application (NDA) submission with the United States Food and Drug Administration (FDA), this “combination rule” study compared the efficacy and safety profiles of MoxDuo IR against component doses of morphine and oxycodone alone for the management of moderate to severe post-operative pain following bunionectomy surgery. MoxDuo IR not only demonstrated statistically superior analgesic effect compared to component doses of morphine and oxycodone but, also, a favourable side effect profile despite delivering twice the opioid dose of its individual components. The primary endpoint for evaluating MoxDuo IR versus its milligram components was the sum of pain intensity differences for each patient from baseline over the 48-hour treatment period (SPID<sub>48</sub>). The trial enrolled 522 patients at 6 US clinical research sites.

Earlier in the year, we announced initiation of our second pivotal Phase 3 registration trial. This study is designed to compare the effectiveness and safety of a flexible MoxDuo IR dose regimen to a fixed low dose for managing moderate to severe pain in patients who have undergone total knee replacement surgery. The primary endpoint for evaluating the efficacy of flexible dose versus low dose MoxDuo IR is once again the difference from baseline in pain intensity scores for each treatment group over the 48-hour study period (SPID<sub>48</sub>). Secondary endpoints include: (1) efficacy relating to the time to onset of analgesia and global assessment of effect (i.e. total pain relief) as well as amount of supplemental analgesia used throughout the treatment period; and (2) safety as measured by incidence and intensity of opioid-related adverse effects. The study is targeted to enroll 140 patients at 8 U.S. clinical sites, and an interim analysis revealed that with half the patients enrolled, the study was likely to reach statistical significance without the addition of more patients. We expect to complete patient dosing in Q3 2010 in preparation for filing a NDA in Q1 2011.

According to the FDA, once these two pivotal studies are completed, no additional pharmacology, toxicology or long-term clinical safety studies will be required for regulatory submission and market approval. Meetings with the European regulatory agencies in Germany and the United Kingdom were positive. We agreed with their recommendation for an additional comparative study to further distinguish MoxDuo from morphine and oxycodone that could enable labeling claims of superiority. We are on track for U.S. commercial launch of MoxDuo IR in 2012, with European launch thereafter.

### **MoxDuo IV: Development Remains On-Track**

The Company successfully completed a Phase 2 study for MoxDuo IV. This comparative proof-of-concept study evaluated the efficacy and safety of intravenous morphine and oxycodone versus IV morphine alone for the treatment of moderate to severe post-operative pain in patients following hip replacement surgery. The Investigator Sponsored Trial, or IST, was conducted in Germany in collaboration with QRxPharma at the Cologne-Merhiem Medical Centre, University Hospital of the Witten/Herdecke University, and Cologne University Hospital. The study enrolled 40 patients.

During the initial evaluation period, data indicated there was 50% better pain relief/analgesic efficacy among patients in the Dual Opioid IV study group compared to those receiving morphine alone. In addition, 67% of patients receiving Dual Opioid IV reported good to excellent global improvement (i.e. experienced good to very good pain relief) compared to 53% of those receiving morphine alone.

Across the entire 48-hour study period, SPID<sub>48</sub> scores were higher among patients in the Dual Opioid IV study group compared to those receiving morphine alone, and they were able to achieve better pain relief faster and with less drug (13 IV doses of Dual Opioid per hour vs. 17 doses of morphine IV per hour). Dual Opioid IV product dosing was also well tolerated, with a lesser incidence of nausea and vomiting compared to morphine IV.

These results are consistent with a continually growing body of data from both QRxPharma generated clinical trials and outside investigators demonstrating better pain control with at least a 50% reduction of the clinically significant adverse events.

#### **MoxDuo CR: Successfully Completed Phase I**

The Company also advanced its controlled release formulation, or MoxDuo CR, into the clinic. MoxDuo CR is designed to provide 12 hours of pain relief in patients suffering from moderate to severe chronic pain including cancer, lower back, osteoarthritis and neuropathic pain, addressing a worldwide multi-billion dollar market.

Following the granting of Investigational New Drug (IND) status by the FDA early in 2010, we successfully completed a Phase 1 trial. The purpose of the study was to determine which of the various experimental formulations provided the optimum duration of drug levels in the blood for incorporation into MoxDuo CR tablets. Therefore, the study compared the rate at which key components of the MoxDuo CR formulation were absorbed, distributed, metabolised and eliminated by the body to the pharmacokinetic profile of Oxycotin® 20 mg (sustained release oxycodone). The results were consistent with expectations for a twice-daily formulation and keeps QRxPharma on track to finalise the MoxDuo CR tablet formulation in early 2011 and initiate Phase 2 trials shortly thereafter. The proprietary formulation, manufactured with Patheon, Inc., will not only encompass sustained delivery technology but also abuse deterrent and tamper resistant features.

#### **Collaborations: Building Value Through Risk Diversification**

In February 2010, QRxPharma and Aoxing Pharmaceutical Company (NYSE AMEX: AXN) announced a strategic alliance to collaborate in the development of MoxDuo IV for the China market in exchange for exclusive marketing rights in China. QRxPharma retained ownership of MoxDuo IV and may use the development work completed by Aoxing for product registration and commercialisation outside of China.

Development efforts with the Company's dystonia, Parkinson's Disease and Alzheimer's Disease programme (Torsin) with a family of small molecules continues under a collaborative research agreement at the University of Alabama (Caldwell Labs) to confirm the preclinical efficacy of its lead molecules. Additionally, preclinical trials supported in part by the Michael J. Fox Foundation are presently underway to evaluate QRxPharma's lead drug candidates in models of Parkinson's disease.

During the year, we also completed a strategic alliance with Liaoning Nuokang Medicines Co, the China based subsidiary of Nasdaq listed China Nuokang Biopharmaceuticals Inc (NASDAQ: NKBP), to develop and commercialise QRxPharma's venomics assets for the Chinese market. Data generated through the development of these products in China will support partnering activities in other territories, the rights of which have been retained by Venomics Pty Limited, a subsidiary of QRxPharma Limited.

#### **Moving Forward**

I am extremely proud of the significant progress made by the QRxPharma team over the past year with the support of our Board of Directors and Shareholders. Our MoxDuo product portfolio has moved forward with speed and diligence – with clinical data collected to date clearly demonstrating the value of this paradigm changing platform. I look forward to an exciting year ahead and the history to be made in improving the management of pain.



John W Holaday, PhD  
Managing Director and Chief Executive Officer

## Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of QRxPharma Limited (referred to hereafter as the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2010.

### Directors

The following persons were directors of QRxPharma Limited during the whole of the financial year and up to the date of this report:

Peter C Farrell  
 R Peter Campbell  
 Gary W Pace  
 Michael A Quinn  
 John W Holaday

### Principal activities

During the year the principal continuing activities of the Group consisted of the development and commercialisation of biopharmaceutical products based on largely Australian research, targeting the US and European markets.

### Dividends - QRxPharma Limited

No dividends were paid or declared since the start of the financial year (2009: \$nil).

### Review of operations

The Group has made a loss from continuing operations after income tax for the year of \$27.5 million (2009: loss of \$13.5 million). The loss 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 and preclinical stage drugs.

The Group continues to closely monitor its cash position as it progresses the MoxDuo<sup>®</sup> IR Phase 3 development programme, and retains \$12.8 million in cash reserves at 30 June 2010.

Further information on the operations and financial position of the Group and its business strategies and prospects is set out on pages 3-4 of this annual report.

### Loss per share

	<b>2010</b>	2009
	<b>Cents</b>	Cents
<b>(a) Basic loss per share</b>		
Loss from continuing operations attributable to the ordinary equity holders of the company	<b>(30.3)</b>	(18.0)
<b>(b) Diluted loss per share</b>		
Loss from continuing operations attributable to the ordinary equity holders of the company	<b>(30.3)</b>	(18.0)

### Significant changes in the state of affairs

No significant changes in the state of affairs of the Group were noted during the financial year that have not otherwise been disclosed in this report or in the financial statements.

### Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

### Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

### **Environmental regulation**

There are no particular and significant environmental regulations under a law of the Commonwealth or of a State or Territory of Australia affecting the Group.

### **Information on directors**

**Peter C Farrell PhD, ScD, AM.** *Non-Executive Chairman.*

#### **Experience and expertise**

Dr Farrell has over 30 years executive and consulting experience in the medical device industry.

Dr Farrell is a Fellow of several professional bodies, including the Australian Academy of Technological Sciences and Engineering, and the Australian Institutes of Management and Company Directors. He is Chair of the Executive Council of the Division of Sleep Medicine at Harvard Medical School, serves on the Boards of the Rady Management and the Jacobs Engineering Schools of the University of California, San Diego (UCSD) and is also on the Health Sciences Advisory Board of UCSD's School of Medicine. Dr Farrell is a Visiting Professor at the University of New South Wales (UNSW) and is also Chair of the UNSW Centre for Innovation and Entrepreneurship.

In 1994, the Australian Institution of Engineers awarded Dr Farrell the honour of National Professional Engineer of the Year and, in 1997, he received the David Dewhurst Award (Biomedical Engineer of the Year) from the same institution. He was also named San Diego Entrepreneur of the Year for Health Sciences in 1998, Australian Entrepreneur of the Year for 2001, and US National Entrepreneur of the Year for Health Sciences for 2005. Dr Farrell was admitted to membership of the Order of Australia in 2004. He holds Bachelors and Masters degrees in chemical engineering from the University of Sydney and the Massachusetts Institute of Technology (MIT) respectively, a PhD in bioengineering from the University of Washington in Seattle, and a ScD from the University of New South Wales for research related to dialysis and renal medicine.

#### **Other current directorships**

Dr Farrell is the Chairman of ResMed Inc (ASX and NYSE: RMD), which he founded in 1989. He is also a Director of Nuvasive Inc (NASDAQ: NUVA) (director since January 2005) serving on the nominations and governance committees.

#### **Former directorships in last 3 years**

Pharmaxis Limited (ASX: PXS) from March 2006 to October 2009.

#### **Special responsibilities**

Chairman of the board.

Chairman of nominations committee.

Chairman of remuneration committee.

#### **Interests in shares and options**

1,630,540 ordinary shares and 604,089 options over ordinary shares.

**John W Holaday PhD.** *Managing Director and Chief Executive Officer.*

#### **Experience and expertise**

Dr Holaday brings four decades of experience as a scientist, founder and executive manager of biotechnology and biopharmaceutical companies, and as a banker. Dr Holaday served as a Captain, US Army, until 1972, and as managing founder of the Neuropharmacology Branch at the Walter Reed Army Institute of Research until 1988. Dr Holaday has extensive experience in building private and publicly traded biopharmaceutical companies. In 1988, Dr Holaday co-founded Medicis Pharmaceutical Corporation (NYSE: MRX), where he served as Director and as Senior Vice President for Research and Development. In 1992, Dr Holaday founded EntreMed Inc (NASDAQ: ENMD), where he served as President, Chief Executive Officer, and Chairman of the board until 2002. Dr Holaday also founded MaxCyte Inc, a cell therapy company, where he served as Chairman until 2003. He founded HarVest Bank of Maryland in 2004, served as Chairman until 2006 and remains on the board. Dr Holaday was founder, Chairman and Chief Executive Officer of CNSCo, Inc, a private company which was acquired by QRxPharma in April 2007.

Dr Holaday serves as an officer and Fellow in several biomedical societies, has authored and edited over 200 scientific articles in journals and books, and holds over 60 patents. He served as Chairman of the Maryland BioAlliance representing over 360 biotech companies. He was a Judge for the Ernst and Young Entrepreneur of the Year Award (2003 to 2008) and was named to the Ernst and Young Entrepreneur of the Year Hall of Fame in 2006. Dr Holaday was formerly an Associate Professor of Anaesthesiology and Critical Care Medicine and Senior Lecturer in Medicine at The Johns Hopkins University of Medicine and remains as Adjunct Professor of Psychiatry at the Uniformed Services University School of Medicine, Bethesda, Maryland. He has received numerous honours and awards, including the 2008 Algernon Sydney Sullivan award as outstanding alumnus of the University of Alabama. Dr Holaday obtained his Doctorate in Pharmacology at the University of California, San Francisco in 1977.

#### **Other current directorships**

Nil

**Former directorships in last 3 years**

Nil

**Special responsibilities**

Managing Director and Chief Executive Officer.  
President of QRxPharma, Inc.  
Member of remuneration committee.

**Interests in shares and options**

7,609,635 ordinary shares (including ordinary shares held by John Holaday and John Holaday as trustee for the John Holaday Foundation) and 1,105,452 options over ordinary shares.

**R Peter Campbell FCA, FTIA. Non-Executive Director.**

**Experience and expertise**

Mr Campbell is a Chartered Accountant and company Director with more than 35 years of business consulting and advisory experience, and operates his own chartered accountancy practice based in Sydney. He is a Fellow of both the Institute of Chartered Accountants in Australia and the Taxation Institute of Australia and is a registered company auditor.

**Other current directorships**

Director and Chair of the audit committees of Silex Systems Limited (ASX: SLX) (director since July 1996) and Sonic Healthcare Limited (ASX: SHL) (director since January 1993).

**Former directorships in last 3 years**

SciGen Limited (ASX: SIE) from August 1999 to February 2005 and Admerex Limited (ASX: ADL) from January 2007 to October 2008.

**Special responsibilities**

Chairman of audit committee.  
Member of nominations committee.

**Interests in shares and options**

102,000 ordinary shares and 241,635 options over ordinary shares.

**Gary W Pace PhD. Non-Executive Director and Consultant.**

**Experience and expertise**

Dr Pace is a co-founder of QRxPharma Limited and continues to work with the Group.

Dr Pace is a seasoned biopharmaceutical executive with over 30 years of experience in the industry. He has co-founded a number of early stage life science companies where he built products from the laboratory to commercialisation.

Dr Pace is an elected Fellow of the Australian Academy of Technological Sciences and Engineering, author and co-author of over 50 research papers, reviews and patents. In 2003, Dr Pace was awarded a Centenary Medal by the Australian Government for service to Australian society in research and development. Dr Pace holds a Bachelor of Science (Honours) from the University of New South Wales and a PhD from Massachusetts Institute of Technology, where he was a Fulbright Scholar.

**Other current directorships**

Director of ResMed Inc (ASX and NYSE: RMD) (director since 1995), Transition Therapeutics Inc (TSX and NASDAQ: TTH;) (director since 2002).

**Former directorships in last 3 years**

Celsion Corp (NASDAQ: CLSN) (2002 – August 2010) and Peplin Limited (ASX: PEP) (2004 – December 2009).

**Special responsibilities**

Nil

**Interests in shares and options**

3,380,083 ordinary shares and 402,726 options over ordinary shares.

**Michael A Quinn MBA. Non-Executive Director.**

**Experience and expertise**

Mr Quinn is managing partner of Innovation Capital and has more than 30 years executive experience in technology companies in Australia, the US and the UK. Mr Quinn holds a Bachelor of Science, a Bachelor of Economics, and an MBA from Harvard. Mr Quinn is Chairman of the New South Wales Entrepreneurship Centre Limited, a not-for-profit organisation that trains entrepreneurs. In 1983 he co-founded Memtec Limited (NYSE and ASX), and has also served as Chief Executive

Officer of an ASX listed manufacturer and distributor of health care and scientific products. Mr Quinn has been a Director of several listed companies in Australia, the US and the UK and numerous unlisted life science and other technology based companies.

**Other current directorships**

Director of ResMed Inc (ASX and NYSE: RMD) (director since 1992) where he chairs the audit committee, and Chairman of CAP-XX Limited (AIM: CPX) (director since November 1998).

**Former directorships in last 3 years**

Nil.

**Special responsibilities**

Member of nominations committee.  
 Member of audit committee.  
 Member of remuneration committee.

**Interests in shares and options**

8,374,371 ordinary shares (including ordinary shares held by Innovation Capital Limited, Innovation Capital LLC and Kaylara Pty Limited). 402,726 options over ordinary shares (including options held by Innovation Capital Limited and Innovation Capital LLC).

**Company Secretary**

Chris J Campbell holds a Bachelor of Commerce and is an Associate of the Institute of Chartered Accountants in Australia. He also holds the position of Chief Financial Officer of QRxPharma Limited. He has over 25 years experience with major accounting firms and as CFO of publicly traded companies.

**Meetings of directors**

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of non-executive directors		Meetings of committees					
					Audit and risk		Nominations		Remuneration	
	A	B	A	B	A	B	A	B	A	B
Peter C Farrell	5	5	4	4	**		1	1	4	4
John W Holaday*	5	5			**		**		4	4
R Peter Campbell	5	5	4	4	6	6	1	1	**	
Gary W Pace	5	5	4	4	**		**		**	
Michael A Quinn	4	5	4	4	6	6	1	1	4	4

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

\* = Not a non-executive director

\*\* = Not a member of the relevant committee

## Remuneration report

The information provided in this remuneration report has been audited as required by section 308 (3C) of the *Corporations Act 2001*.

### **Principles used to determine the nature and amount of remuneration**

As a company building a speciality pharmaceutical business to compete internationally, QRxPharma Limited requires a board and senior management team that have both the technical capability and relevant business experience to execute the Group's strategy.

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

The Group has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- focuses on sustained growth in share price as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides recognition for contribution.

The framework provides a blend of fixed pay, and short and long-term incentives.

The board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The Corporate Governance Statement provides further information on the role of this committee.

### *Non-executive directors*

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The fees were set on 27 April 2007 ahead of the Company completing its initial public offering. There is an annual base fee payable six months in arrears, currently \$60,000 for the Chairman and \$40,000 for the other non-executive directors (which also covers serving on a committee) and long term incentives through participation in the QRxPharma Limited Employee Share Option Plan.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$400,000 per annum and was approved by shareholders at the Annual General Meeting on 24 April 2007.

### *Executive pay*

The executive pay and reward framework has three components:

- base pay and benefits, including superannuation
- short-term performance incentives, and
- long-term incentives through participation in the QRxPharma Limited Employee Share Option Plan.

The combination of these comprises the executive's total remuneration.

## Remuneration report (continued)

### *Base pay and benefits*

Structured as a total employment package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for executives is reviewed annually and every two years a market survey is conducted to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any executives' contracts.

Executives receive benefits including health insurance and tax advisory services.

### *Superannuation*

The Group does not maintain a Group superannuation plan. The Group makes fixed percentage contributions for Australian resident employees to complying third party superannuation funds and where requested, for US resident employees to complying pension plans.

### *Short-term incentives*

A variable cash incentive component is payable annually dependent upon achievement of performance targets. Individual performance targets are set by reference to components of the Group's business plan for which the individual executive is responsible. Maximum available bonuses vary from 30% of base pay to a fixed amount of USD 130,000.

Each executive has a target short-term incentive opportunity depending on the accountabilities of the role and impact on the organisation. Each year, the remuneration committee considers the appropriate targets and key performance indicators (KPIs) for each executive. For the year ended 30 June 2010, the KPIs were based on meeting group and individual milestone achievements.

The remuneration committee is responsible for assessing whether the KPIs are met. To help make this assessment, the committee receives detailed reports on performance from management.

### *Long-term incentives*

Long-term incentives are provided to certain employees through participation in the QRxPharma Limited Employee Share Option Plan.

## **Details of remuneration**

### *Amounts of remuneration*

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of QRxPharma Limited and the Group are set out in the following tables.

The key management personnel of QRxPharma Limited and the Group includes the directors as per pages 6 to 9 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the Group, who also include the 5 highest paid executives of the entity:

- Warren C Stern, PhD - Executive Vice President, Drug Development
- Chris J Campbell - Chief Financial Officer and Company Secretary
- Philip J Magistro - Vice President Commercial Operations
- Patricia T Richards, MD - Chief Medical Officer
- M Janette Dixon – Vice President Global Development (appointed director of Venomics Pty Limited from 23 September 2009)

**Remuneration report (continued)**  
*Amounts of remuneration (continued)*

**Key management personnel and other executives of QRxPharma Limited and the Group are the same**

2010	Short-term employee benefits				Post-employment benefits		Long-term benefits	Share-based payments	Total \$
	Cash salary and fees \$	Cash bonus \$	Non monetary benefits \$	Other \$	Super-annuation \$	Retirement Benefits \$	Long Service leave \$	Options \$	
<i>Non-executive directors</i>									
Peter C Farrell	60,000	-	-	-	-	-	-	59,589	119,589
R Peter Campbell	40,000	-	-	-	3,600	-	-	23,835	67,435
Michael A Quinn	40,000	-	-	-	-	-	-	39,726	79,726
Gary W Pace	40,000	-	-	-	-	-	-	47,095	87,095
<b>Sub-total non-executive directors</b>	<b>180,000</b>	-	-	-	<b>3,600</b>	-	-	<b>170,245</b>	<b>353,845</b>
<i>Executive directors</i>									
John W Holaday	340,411	144,003	-	-	-	-	-	189,868	674,282
<i>Other key management personnel (Group)</i>									
Warren C Stern ^	271,261	100,802	-	-	-	-	-	119,435	491,498
Chris J Campbell ^	207,110	105,000	-	-	31,385	-	-	51,143	394,638
Philip J Magistro ^	290,240	24,924	-	-	-	-	-	42,325	357,489
Patricia T Richards ^	316,777	83,415	-	-	-	-	-	78,069	478,261
M. Janette Dixon *^ (from 23 September 2009)	213,883	41,539	-	-	-	-	-	74,455	329,877
<b>Total key management personnel compensation (Group)</b>	<b>1,819,682</b>	<b>499,683</b>	-	-	<b>34,985</b>	-	-	<b>725,540</b>	<b>3,079,890</b>

^ denotes one of the 5 highest paid executives of the Group and Company, as required to be disclosed under the *Corporations Act 2001*.

\* M. Janette Dixon was appointed a director of Venomics Pty Limited on 23 September 2009 and is considered to fall within the definition of group executive from that date. Fees and bonus payments were made pursuant to consultancy agreements held with BioComm Strategy Pte Ltd. In addition to the share based payments expense above, on 7 July 2009 Janette Dixon was issued a 10% interest in Venomics Pty Limited as a reward for services rendered. Refer note 24(a) for further details.

Joseph Berry resigned effective 31 March 2010 and is no longer a key management person of the Group.

Gary Pace was paid \$97,266 for consulting services provided to the Company during the year in addition to the amount above.

Remuneration report (continued)

Key management personnel and other executives of QRxPharma Limited and the Group were the same in 2009

2009	Short-term employee benefits				Post-employment benefits		Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non monetary benefits	Other	Super-annuation	Retirement Benefits	Long Service leave	Options	
Name	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-executive directors</i>									
Peter C Farrell	60,000	-	-	-	-	-	-	141,155	201,155
R Peter Campbell	40,000	-	-	-	3,600	-	-	56,462	100,062
Michael A Quinn	40,000	-	-	-	-	-	-	94,104	134,104
Gary W Pace	40,000	-	-	-	-	-	-	125,088	165,088
<b>Sub-total non-executive directors</b>	<b>180,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,600</b>	<b>-</b>	<b>-</b>	<b>416,809</b>	<b>600,409</b>
<i>Executive directors</i>									
John W Holaday	404,733	132,511	-	-	-	-	-	250,176	787,420
<i>Other key management personnel (Group)</i>									
Warren C Stern ^	311,677	121,674	-	-	-	-	-	252,287	685,638
Chris J Campbell ^	204,644	57,881	-	-	23,626	-	-	104,416	390,567
Joseph J Berry ^(resigned 30 March 2010)	307,257	91,255	-	-	-	-	-	30,794	429,306
Philip J Magistro ^	311,677	91,255	-	-	-	-	-	40,495	443,427
Patricia T Richards ^	343,355	101,395	-	-	-	-	-	107,178	551,928
<b>Total key management personnel compensation (Group)</b>	<b>2,063,343</b>	<b>595,971</b>	<b>-</b>	<b>-</b>	<b>27,226</b>	<b>-</b>	<b>-</b>	<b>1,202,155</b>	<b>3,888,695</b>

^ denotes one of the 5 highest paid executives of the Group and the Company, as required to be disclosed under the Corporations Act 2001.

Gary Pace was paid \$131,532 for consulting services provided to the Company during the year ended 30 June 2009, in addition to the amount disclosed above.

Key management personnel and other executives of the Group

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2010	2009	2010	2009	2010	2009
<b>Directors of QRxPharma Limited</b>						
John W Holaday	50%	51%	22%	17%	28%	32%
Peter C Farrell	50%	30%	-	-	50%	70%
R Peter Campbell	65%	44%	-	-	35%	56%
Michael A Quinn	50%	30%	-	-	50%	70%
Gary W Pace	46%	24%	-	-	54%	76%
<b>Other key management personnel of the Group</b>						
Warren C Stern	55%	45%	21%	18%	24%	37%
Chris J Campbell	60%	58%	27%	15%	13%	27%
Philip J Magistro	81%	70%	7%	21%	12%	9%
Patricia T Richards	67%	62%	17%	19%	16%	19%
Joseph J Berry (resigned 30 March 2010)	-	72%	-	21%	-	7%
M. Janette Dixon (from 23 September 2009)	65%	-	13%	-	22%	-

## Remuneration report (continued)

### Service agreements

On appointment to the board, all non-executive directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the board policies and terms, including compensation, relevant to the office of director.

Remuneration and other terms of employment for the Managing Director and Chief Executive Officer and the other Key Management personnel are also formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses, other benefits including health insurance and tax advisory services, and participation, when eligible, in the QRxPharma Limited Employee Share Option Plan. Other major provisions of the agreements relating to remuneration are set out below.

#### John W Holaday, *Managing Director and Chief Executive Officer*

- Term of agreement - 3 years (with annual extension) renegotiated from 20 February 2009.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2010 of US\$300,000, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the annual base salary and a bonus component of US\$130,000.

#### Warren C Stern, *Executive Vice President Drug Development*

- Term of agreement – Renewed from 1 July 2010 for 9 months to 31 March 2011 unless extended by mutual agreement.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2010 of US\$275,000 to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the annual base salary and a bonus component of US\$100,000.

#### Chris J Campbell, *Chief Financial Officer*

- Term of agreement - ongoing, commencing 1 March 2007.
- Base salary, inclusive of superannuation, for the year ended 30 June 2010 of \$225,750, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination without notice by the Company, other than for gross misconduct, equal to 3 months' salary.
- Contract can be terminated by either party with three months' notice.

#### Philip J Magistro, *Vice President Commercial Operations*

- Term of agreement – ongoing, commencing 26 November 2007
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2010 of US\$275,000, to be reviewed annually by the remuneration committee.
- Agreement can be terminated by either party with one month's notice.

#### Patricia T Richards, *Chief Medical Officer*

- Term of agreement - ongoing, commencing 18 February 2009
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2010 of US\$290,000, to be reviewed annually by the remuneration committee.
- Agreement can be terminated by either party with one month's notice.

#### M. Janette Dixon, *VP Global Development*

- Term of agreement – ongoing, commencing 17 August 2009 with QRxPharma Limited, and 1 October 2009 with Venomics Pty Limited. Agreements are held with Janette Dixon as the principal of BioComm Strategy Pte Ltd.
- Base consulting fee for the contract with QRxPharma Limited for the year ended 30 June 2010 of US\$50,000 per annum (pro rata).
- Base consulting fee for the contract with Venomics Pty Limited for the year ended 30 June 2010 of US\$200,000 per annum (pro rata).
- Each agreement can be terminated by either party with two months' notice.

#### Gary W Pace, *Non-Executive Director, Consultant*

- Term of agreement - 1 year, renegotiated from 25 May 2010.
- Base consulting fee for the contract year ending 25 May 2010 of US\$83,000 per annum (pro rata).
- Agreement can be terminated by either party with one month's notice.
- No termination benefit payable on early termination by the Company.

**Remuneration report (continued)**

**Share-based compensation**

*Options*

Options over shares in QRxPharma Limited are granted under the QRxPharma Limited Employee Share Option Plan (ESOP). The ESOP is designed to provide long-term incentives for executives to deliver long-term shareholder returns.

The maximum number of options available to be issued under the ESOP is 10% of diluted ordinary share capital in the Company as at the date of issue of the relevant options. All employees and directors are eligible to participate in the ESOP, but do so at the invitation of the Remuneration Committee. The term of option issues are determined by the Remuneration Committee.

Options issued up to 31 December 2008 were generally granted for no consideration and generally vest annually over 3 years in equal proportions with the initial vesting on the first anniversary of the date of grant. Options issued from 1 January 2009 have also been issued for no consideration and 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. The exercise price is set by the Remuneration Committee but being not less than the market price of ordinary shares immediately prior to the grant date of the options.

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Vested and exercisable	Expiry date	Exercise price	Value per option at grant date	% Vested
31 March 2007	Over 3 years	31 March 2014	\$1.42	\$1.31	100%
14 April 2007	Over 3 years	14 April 2014	\$1.00	\$1.46	100%
25 May 2007	Over 3 years	25 May 2014	\$1.00	\$1.46	100%
25 May 2007	Over 3 years	25 May 2014	\$2.00	\$1.15	100%
1 September 2007	Over 3 years	1 September 2014	\$1.70	\$0.98	67%
1 October 2007	Over 3 years	1 October 2014	\$1.45	\$0.83	67%
9 October 2007	Over 3 years	9 October 2014	\$1.34	\$0.77	67%
1 January 2008	Over 3 years	1 January 2015	\$1.11	\$0.64	67%
1 April 2008	Over 3 years	1 April 2015	\$1.05	\$0.60	67%
1 April 2008	Over 3 years	1 April 2015	\$1.04	\$0.60	67%
1 October 2008	Over 3 years	1 October 2015	\$0.60	\$0.24	33%
4 November 2008	Over 6 months	4 November 2015	\$0.37	\$0.07	100%
1 January 2009	Over 6 months	1 January 2016	\$0.20	\$0.10	100%
1 January 2009	Over 3 years	1 January 2016	\$0.20	\$0.10	50%
31 August 2009	Over 3 years	31 August 2016	\$0.65	\$0.44	-
1 October 2009	Over 3 years	1 October 2016	\$0.90	\$0.61	-
16 November 2009	Over 3 years	16 November 2016	\$1.12	\$0.76	-
1 January 2010	Over 3 years	1 January 2017	\$0.78	\$0.53	-
17 February 2010	Over 3 years	17 February 2017	\$0.84	\$0.57	-
24 March 2010	Over 3 years	24 March 2014	\$1.26	\$0.38	-

The exercise price in respect of an option granted shall be the market price for a share prevailing at the time of grant unless the board decides otherwise. Options will lapse if they are not exercised before the expiration date or if the option holder leaves the employment of the Group.

Details of options over ordinary shares in the company provided as remuneration to each director of QRxPharma Limited and each of the key management personnel of the parent entity and the Group are set out below. When exercisable, each option is convertible into one ordinary share of QRxPharma Limited. Further information on the options is set out in note 28 to the financial statements. The plan rules contain a restriction on removing the "at risk" aspect of instruments granted to executives. Plan participants may not enter into any transaction designed to remove the "at risk" aspect of an instrument before it vests.

Remuneration report (continued)

	Number of options granted during the year	Value of options at grant date* \$	Number of options vested during the year	Number of options lapsed during the year	Value at lapse date** \$
<b>Directors of QRxPharma Limited</b>					
Peter C Farrell	-	-	201,363	-	-
R Peter Campbell	-	-	80,545	-	-
Michael A Quinn	-	-	134,242	-	-
Gary W Pace	-	-	134,242	-	-
John W Holaday	300,000	227,370	268,484	-	-
<b>Other key management personnel</b>					
Warren C Stern	137,500	73,337	305,984	-	-
Chris J Campbell	150,000	56,838	171,742	-	-
Philip J Magistro	130,000	70,038	96,667	-	-
Patricia T Richards	130,000	70,038	196,667	-	-
M. Janette Dixon (from 23 September 2009)	350,000	166,806	-	-	-

\* The value at grant date calculated in accordance with AASB 2 Share-based Payment of options granted during the year as part of remuneration.

\*\* The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are 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.

*Shares provided on exercise of remuneration options*

Details of ordinary shares in the company provided as a result of the exercise of remuneration options to each director of QRxPharma Limited and other key management personnel of the Group are set out below.

	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year	Value at exercise date* \$
<b>Directors of QRxPharma Limited</b>			
Peter C Farrell	-	-	-
R Peter Campbell	-	-	-
Michael A Quinn	-	-	-
Gary W Pace	-	-	-
John W Holaday	-	-	-
<b>Other key management personnel</b>			
Warren C Stern	22 April 2010	30,000	29,400
Chris J Campbell	18 March 2010	25,000	15,750
Joseph J Berry (resigned 30 March 2010)	21 June 2010	25,000	23,750
Philip J Magistro	-	-	-
Patricia T Richards	-	-	-
M. Janette Dixon (from 23 September 2009)	2 June 2010	100,000	75,000

\* The value at the exercise date of options that were granted as part of remuneration and were exercised during the year has been determined as the intrinsic value of the options at that date.

**Remuneration report (continued)**

The amounts paid per ordinary share by each director and other key management personnel on the exercise of options at the date of exercise were as follows:

Exercise date	Amount paid per share
22 April 2010	\$0.20
18 March 2010	\$0.20
21 June 2010	\$0.20
2 June 2010	\$0.37

No amounts are unpaid on any shares issued on the exercise of options

*Details of remuneration: Bonuses and share-based compensation benefits*

For each cash bonus and grant of options included in the tables on pages 14, 15 and 16, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonus is payable in future years. The options vest after three years, provided the vesting conditions are met. No options will vest if the conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

Name	Bonus		Share-based compensation benefits (options)				
	Paid %	Forfeited %	Year Granted	Vested %	Forfeited %	Financial years in which options may vest	Maximum total value of grant yet to vest \$
<b>Directors of QRxPharma Limited</b>							
Peter C Farrell	-	-	2007	100%	-	-	-
R Peter Campbell	-	-	2007	100%	-	-	-
Michael A Quinn	-	-	2007	100%	-	-	-
Gary W Pace	-	-	2007	100%	-	-	-
John W Holaday	100%	-	2010 2007	- 100%	-	2011 - 2013	227,370
<b>Other key management personnel</b>							
Warren C Stern	95%	5%	2010	-	-	2011 - 2013	56,843
			2010	-	-	2011 - 2013	16,494
			2009	50%	-	2011 - 2012	3,721
			2007	100%	-	-	-
Chris J Campbell	100%	-	2010	-	-	2011 - 2013	56,838
			2009	50%	-	2011 - 2013	3,721
			2007	100%	-	-	-
Philip J Magistro	30%	70%	2010	-	-	2011 - 2013	56,843
			2010	-	-	2011 - 2013	13,196
			2009	50%	-	2011 - 2013	2,977
			2008	67%	-	2011	29,853
Patricia T Richards	89%	11%	2010	-	-	2011 - 2013	56,843
			2010	-	-	2011 - 2013	13,196
			2009	50%	-	2011 - 2012	2,977
			2008	67%	-	2011	70,599
M. Janette Dixon (from 23 September 2009)	30%	70%	2010	-	-	2011 - 2013	56,843
			2010	-	-	2011 - 2013	109,963
			2008	100%	-	-	-

**Remuneration report (continued)**

**Shares under option**

Unissued ordinary shares of QRxPharma Limited under option at the date of this report are as follows:

<b>Date options granted</b>	<b>Expiry date</b>	<b>Issue price of shares</b>	<b>Number under option</b>
31 March 2007	31 March 2014	\$1.42	402,726
14 April 2007	14 April 2014	\$1.00	2,013,630
25 May 2007	25 May 2014	\$1.00	552,726
25 May 2007	25 May 2014	\$2.00	1,448,450
1 September 2007	1 September 2014	\$1.70	50,000
1 October 2007	1 October 2014	\$1.45	75,000
9 October 2007	9 October 2014	\$1.34	50,000
1 January 2008	1 January 2015	\$1.11	200,000
1 April 2008	1 April 2015	\$1.05	600,000
1 April 2008	1 April 2015	\$1.04	75,000
1 October 2008	1 October 2015	\$0.60	50,000
1 January 2009	1 January 2016	\$0.20	330,000
31 August 2009	31 August 2016	\$0.65	477,500
1 October 2009	1 October 2016	\$0.90	150,000
16 November 2009	16 November 2016	\$1.12	300,000
1 January 2010	1 January 2017	\$0.78	100,000
17 February 2010	17 February 2017	\$0.84	565,000
24 March 2010	24 March 2014	\$1.26	295,000
			<b>7,735,032</b>

**Shares issued on the exercise of options**

The following ordinary shares of QRxPharma Limited were issued during the year ended 30 June 2010 on the exercise of options granted under the QRxPharma Limited Employee Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

<b>Date options granted</b>	<b>Issue price of shares</b>	<b>Number of shares issued</b>
4 November 2008	\$0.37	100,000
1 January 2009	\$0.20	345,000
31 August 2009	\$0.65	30,000
		<b>475,000</b>

**Indemnification**

The company has entered into Deeds of Access, Indemnity and Insurance with each of the directors and executive officers of the Group against all liabilities to another person (other than the company or a related body corporate) that may arise from their position as directors and executive officers of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the company will meet the amount of any such liabilities, including costs and expenses.

**Insurance of officers**

The directors have not included details of the nature of liabilities covered nor the amount of the premium paid in respect to Directors and Officers liability insurance contracts, as such disclosure is prohibited under the terms of the contracts.

**Proceedings on behalf of the company**

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

**Non-audit services**

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

	2010 \$	2009 \$
<b>(a) PricewaterhouseCoopers Australia</b>		
<i>Other assurance services</i>		
Accounting advisory services	<u>16,200</u>	<u>33,250</u>
<b>Total remuneration for other assurance services</b>	<b><u>16,200</u></b>	<b><u>33,250</u></b>
<i>Taxation services</i>		
Tax compliance services	<u>4,660</u>	<u>6,280</u>
International tax consulting and tax advice	<u>26,100</u>	<u>82,605</u>
<b>Total remuneration for taxation services</b>	<b><u>30,760</u></b>	<b><u>88,885</u></b>
<b>(b) Related practices of PricewaterhouseCoopers Australia</b>		
<i>Taxation services</i>		
Tax compliance services	<u>37,025</u>	<u>66,218</u>
<b>Total remuneration for taxation services</b>	<b><u>37,025</u></b>	<b><u>66,218</u></b>
<b>Total remuneration for non-audit services</b>	<b><u>83,985</u></b>	<b><u>188,353</u></b>

**Auditor's independence declaration**

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

**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 or directors report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

**Auditor**

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.



Peter Farrell  
 Director

Sydney  
 29 September 2010

PricewaterhouseCoopers  
ABN 52 780 433 757

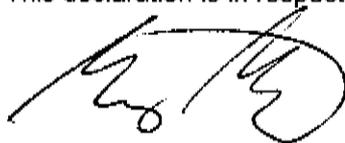
Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999  
pwc.com.au

### Auditor's Independence Declaration

As lead auditor for the audit of QRxPharma Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of QRxPharma Limited and the entities it controlled during the period.



Manoj Santiago  
Partner  
PricewaterhouseCoopers

Sydney  
29 September 2010

## Corporate governance statement

QRxPharma Limited (the Company) and the board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. They comply with the August 2007 ASX *Principles of Good Corporate Governance and Best Practice Recommendations (the Principles)*.

### Principle 1: Lay solid foundations for management and oversight

The relationship between the board and senior management is critical to the Group's long term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

The responsibilities of the board include:

- overseeing the business and strategic direction of the Group in order to maximise performance and generate appropriate levels of shareholder return
- ensuring that management establishes and follows an appropriate system of internal controls, risk management and legal compliance
- reviewing the performance and implementation of corporate strategies by senior management and ensuring senior management have the necessary resources to do so
- approving and supervising significant capital expenditure, capital management, acquisitions and divestments
- appointment, performance assessment and, if necessary, removal of the Chairman, Chief Executive Officer, Chief Financial Officer and the Company Secretary
- approving and monitoring annual budgets and strategic plans
- approving and monitoring financial and other reporting made to shareholders and the ASX under the continuous disclosure regime.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the Chief Executive Officer and senior executives as set out in the Group's delegations policy. These delegations are reviewed on an annual basis.

A performance assessment for senior executives last took place in July 2010 during the remuneration committee's annual assessment of performance bonuses. To help make this assessment, the committee receives detailed reports on performance from management.

### Principle 2: Structure the board to add value

The board operates in accordance with the broad principles set out in its charter which together with all other charters and policies referred to in this Statement are available from the corporate governance information section of the company website at [www.qrxpharma.com](http://www.qrxpharma.com). The charter details the board's composition and responsibilities.

#### **Board composition**

The charter states:

- the board is committed to ensuring that there will be a least five directors of whom a majority will be non-executive directors. Non-executive directors bring a fresh perspective to the board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management
- where possible the non-executive directors be independent. This is in recognition of the importance of independent views and the board's role in supervising the activities of management and independent judgement in board decision making
- the board is also committed to ensuring that its members have a broad range of skills, experience and expertise. This will assist the board to maximise performance and ensure appropriate levels of shareholder return
- the board is required to undertake an annual review of its performance and Charter to ensure that it is operating effectively and in the best interests of the Group

The board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective
- the size of the board is conducive to effective discussion and efficient decision making.

**Directors' independence**

The board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non-executive and the board should consider whether the director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- is or has been employed in an executive capacity by the Company or any other Group member, within three years before commencing to serve on the board
- within the last three years has been a principal of a material professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided
- is a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- has a material contractual relationship with the company or a controlled entity other than as a director of the Group
- is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Group.

At present, materiality for these purposes is determined as a relationship or contract where the Company or Group pays in excess of \$100,000.

The board regularly assesses director independence having regard to the criteria outlined in the Principles. To enable this process, the directors must provide all information that may be relevant to the assessment. During the financial year ended 30 June 2010, three non-executive directors; Peter C Farrell, R Peter Campbell and Gary W Pace were considered to be independent.

Recent thinking on corporate governance has introduced the view that a director's independence may be perceived to be impacted by lengthy service on the board. To avoid any potential concerns, the board has determined that a director will not be deemed independent if he or she has served on the board of the company for more than ten years.

**Board members**

Details of the members of the board, their experience, expertise, qualifications, term of office, relationships affecting their independence and their independent status are set out in the directors' report under the heading "Information on directors". At the date of signing the directors' report, there is one executive director and four non-executive directors.

**Non-executive directors**

The four non-executive directors met four times during the year, in scheduled sessions without the presence of management, to discuss the operation of the board and a range of other matters. Relevant matters arising from these meetings were shared with the full board.

**Term of office**

The Company's Constitution specifies that all directors excluding the chief executive officer must retire from office no later than the third annual general meeting (AGM) following their last election.

**Chair**

The Chair of the board of the Company is an independent, non-executive director.

The Chair is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the Group's senior executives. In accepting the position, the Chair has acknowledged that it will require a significant time commitment and has confirmed that other positions will not hinder his effective performance in the role of the Chair.

**Chief Executive Officer (CEO)**

The CEO is responsible for implementing Group strategies and policies.

**Commitment**

The number of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2010, and the number of meetings attended by each director is disclosed on page 8.

The board will meet as frequently as required but must not meet less than four times each year.

The commitments of non-executive directors are considered by the nomination committee prior to the directors' appointment to the board of the Company.

### **Independent professional advice**

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice. With the approval of the Chairman this advice will be at the expense of the Company.

### **Avoidance of conflict of interest**

In addition to the issue of independence, the directors have a continuing responsibility to avoid conflicts of interest (both real and apparent) between their duty to the Company and their own interests. Directors are required to disclose any actual or potential conflict of interest on appointment and are required to keep this disclosure up to date. A director that has an actual or potential conflict must immediately inform the board and remove themselves from any discussions or decision making in relation to the actual or potential conflict.

### **Performance assessment**

The board undertook annual self-assessments of its collective performance, the performance of the Chairman and its committees. The results and any action plans are documented together with specific performance goals which are agreed for the coming year.

### **Board committees**

The board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the nominations, remuneration and audit committees. The nominations and audit committees are comprised entirely of non-executive directors.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company website. All matters determined by committees are submitted to the full board as recommendations for board decisions.

Minutes of committee meetings are tabled at the subsequent board meeting. Additional requirements for specific reporting by the committees to the board are addressed in the charter of the individual committees.

### **Nominations committee**

The nominations committee is currently comprised of Peter C Farrell (Chairman), Michael A Quinn, and R Peter Campbell all non-executive directors.

Details of these directors' attendance at nomination committee meetings are set out in the directors' report on page 8.

The nominations committee operates in accordance with its charter which is available on the Company website. The nominations committee assists the board to discharge its responsibilities with regards to overseeing the composition of the board and competencies of directors together with developing procedures to assess the performance of directors. Further, advise the board on appointment and evaluation of the Managing Director and to develop succession plans for the board, Managing Director and senior management.

The main responsibilities of the committee include:

- reviewing management succession planning for the Company in general but specifically in regards to the CEO and other senior management
- reviewing the appointments and terminations to senior executive positions reporting to the CEO
- reviewing and making recommendations to the board regarding the appointment of non-executive directors, including:
  - periodically assessing the appropriate mix of skills, experience and expertise required on the board and assessing the extent to which skills are represented on the board
  - establishing processes for identification of suitable candidates for appointment to the board
  - monitoring the length of service of current board members, considering succession planning issues and identifying the likely order of retirement by rotation of non-executive directors
  - establishing processes for the review of the performance of individual non-executive directors, the board and board committees.

Whilst the nominations committee may recommend new director candidates, it is the full board that is responsible for the actual appointment of new directors and any candidate appointed must stand for election at the next annual general meeting of the company. The committee's nomination of existing directors for reappointment is also not automatic and is contingent on their past performance, contribution to the Company and the current and future needs of the board and Company.

### **Principle 3: Promote ethical and responsible decision making**

#### **Code of Conduct**

Over the past year the board has conducted the affairs of the Company in accordance with principles of good corporate governance and has required that at all times all Group personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Group policies.

The Company is developing a Code of Conduct to comply with the Principles. The Code will guide the board, individual directors and senior management as to the practices necessary to maintain confidence in the Group's integrity with key stakeholders and the wider community together with the responsibility and accountability of individuals for reporting and

investigating reports of unethical practices.

The Company maintains a Securities Trading Policy which is available on the company website. It is contrary to the Company's policy for directors, officers and employees to be engaged in short term trading of the Company's securities. All directors, officers and employees are prohibited from dealing in any QRxPharma Limited securities, except while not in possession of unpublished price sensitive information. Directors, officers and employees may only then deal in the Company's securities during a specified period of 45 days after the release of the Company's half-yearly or annual results, after the AGM, or after any other announcement under the continuous disclosure provisions of the ASX Listing Rules. Directors must obtain the approval of the Chairman and employees the approval of the Company Secretary prior to dealing in the Company's securities outside those periods.

#### **Principle 4: Safeguard integrity in financial reporting**

##### **Audit committee**

The audit committee is currently comprised of R Peter Campbell (Chairman), an independent director, and Michael A Quinn, both non-executive directors.

Details of these directors' qualifications and attendance at audit committee meetings are set out in the directors' report on pages 6 - 8.

The audit committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industry in which the Group operates. The Committee's composition does not comply with the Principles in that it does not include at least three members and does not have a majority of independent directors. The board considers that the audit committee as represented by the two non-executive directors noted above is suitably structured and qualified to fully discharge its responsibilities at this stage of the Company's development.

The audit committee operates in accordance with a charter which is available on the Company website. The audit committee assist the board to discharge its responsibilities relating to the effectiveness of the control environment and risk management framework in the areas of operational and balance sheet risk, legal/regulatory compliance and financial reporting, together with the effectiveness and independence of the external audit process.

The main responsibilities of the committee include:

- overseeing the Company's relationship with the external auditor (including forming a policy on the provision of non-audit services and the rotation of external audit personnel on a regular basis) and the external audit function in general. This includes recommending to the board the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, the scope and quality of the audit and assess performance
- overseeing the adequacy of the control processes in place in relation to the preparation of financial statements and reports
- overseeing the adequacy of the Company's financial controls and systems
- overseeing the process of identification and management of business, financial and commercial risks.

In fulfilling its responsibilities, the audit committee:

- receives regular reports from management and external auditors
- meets with the external auditors at least twice a year, or more frequently if necessary
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- provides the external auditors with a clear line of direct communication at any time to the audit committee.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

##### **External auditors**

The Company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. PricewaterhouseCoopers is the incumbent external auditor. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in the directors' report and in note 20 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the annual report.

#### **Principles 5 and 6: Make timely and balanced disclosures and respect the rights of shareholders**

##### **Continuous disclosure and shareholder communication**

In fulfilling its responsibilities on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities the Company is committed to:

- ensuring that shareholders and the financial markets are provided with timely disclosure about its activities

- fully complying with continuous disclosure obligations contained in applicable ASX listing rules and the Corporations Act
- ensuring that all investors have equal and timely access to material information concerning the Group.

The Company has detailed this commitment in a Continuous Disclosure Policy which is available on the Company website.

The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

The Company's Shareholder Communication Policy is available on the Company's website. Under this Policy, the Company website provides general information and reports on the Group, inclusive of ASX announcements, investor presentations, and a link to ASX website which displays the share price, share price movements and other market information.

### **Principle 7: Recognise and manage risk**

The board, through the audit committee, is responsible for ensuring there is an adequate framework in relation to risk management, compliance and internal control systems. In summary, the framework is designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Management has provided the board with a report which attests to the effective management of the Company's material business risks.

The CEO and CFO have provided the following written declarations in accordance with section 295A of the Corporations Act.

- That the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and Group and are in accordance with relevant accounting standards.
- That the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

### **Principle 8: Remunerate fairly and responsibly**

#### **Remuneration Committee**

The remuneration committee is currently comprised of Peter C Farrell (Chairman), Michael A Quinn, both non-executive directors and John W Holaday, the Managing Director.

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report on page 8.

The remuneration committee operates in accordance with its charter which is available on the Company website. The remuneration committee assists the board to discharge its responsibilities to attract and retain senior executives and directors who will create value for shareholders. The remuneration committee advises the board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for senior executives and directors.

The main responsibilities of the committee include:

- assisting the board in setting the executive remuneration policy inclusive of the operation of the Company's employee share option plan
- making recommendations to the board for reviewing and approving the remuneration of executive directors
- reviewing and approving the remuneration of senior executives as defined by the board from time to time.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination.

Further information on directors' and executives' remuneration is set out in the Directors' Report under the heading "Remuneration Report".

**QRxPharma Limited** ABN 16 102 254 151  
**Annual report - 30 June 2010**

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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 on pages 3-4 and in the directors' report on pages 5-8, both of which are not part of these financial statements.

The financial statements were authorised for issue by the directors on 27 September 2010. 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](http://www.qrxpharma.com).

**QRxPharma Limited**  
**Consolidated statements of comprehensive income**  
**For the year ended 30 June 2010**

	Notes	2010 \$'000	2009 \$'000
<b>Revenue from continuing operations</b>	5	<b>261</b>	719
Other income	6	<b>405</b>	5,474
Research and development	7	<b>(18,006)</b>	(11,937)
Employee benefits expense	7	<b>(6,081)</b>	(6,191)
Depreciation and amortisation	7	<b>(65)</b>	(29)
Business development		<b>(1,131)</b>	(212)
Other expenses		<b>(2,383)</b>	(1,319)
Net foreign exchange (loss)	7	<b>(474)</b>	-
<b>Loss before income tax</b>		<b>(27,474)</b>	(13,495)
Income tax benefit	8	<b>-</b>	-
Loss from continuing operations		<b>(27,474)</b>	(13,495)
<b>Loss for the year</b>		<b>(27,474)</b>	(13,495)
Other comprehensive (loss)/income			
Exchange differences on translation of foreign operations		<b>(172)</b>	620
<b>Other comprehensive (loss)/income for the year, net of tax</b>		<b>(172)</b>	620
<b>Total comprehensive (loss) for the year</b>		<b>(27,646)</b>	(12,875)
Loss for the year is attributable to:			
Owners of QRxPharma Limited		<b>(27,348)</b>	(13,495)
Non-controlling interests		<b>(126)</b>	-
		<b>(27,474)</b>	(13,495)
Total comprehensive (loss) is attributable to:			
Owners of QRxPharma Limited		<b>(27,520)</b>	(12,875)
Non-controlling interests		<b>(126)</b>	-
		<b>(27,646)</b>	(12,875)
<b>Earnings per share for loss attributable to the ordinary equity holders of the company:</b>		<b>Cents</b>	<b>Cents</b>
Basic loss per share	26	<b>(30.3)</b>	(18.0)
Diluted loss per share	26	<b>(30.3)</b>	(18.0)

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

**QRxPharma Limited**  
**Consolidated balance sheets**  
**As at 30 June 2010**

	Notes	2010 \$'000	2009 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	12,760	17,773
Trade and other receivables	10	76	66
Other current assets	11	<u>390</u>	<u>566</u>
<b>Total current assets</b>		<b><u>13,226</u></b>	<b><u>18,405</u></b>
<b>Non-current assets</b>			
Available for sale financial assets	12	407	-
Property, plant and equipment	13	240	274
Intangible assets	14	<u>-</u>	<u>-</u>
<b>Total non-current assets</b>		<b><u>647</u></b>	<b><u>274</u></b>
<b>Total assets</b>		<b><u>13,873</u></b>	<b><u>18,679</u></b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	15	<u>2,094</u>	<u>1,684</u>
<b>Total current liabilities</b>		<b><u>2,094</u></b>	<b><u>1,684</u></b>
<b>Total liabilities</b>		<b><u>2,094</u></b>	<b><u>1,684</u></b>
<b>Net assets</b>		<b><u>11,779</u></b>	<b><u>16,995</u></b>
<b>EQUITY</b>			
Contributed equity	16	99,969	79,694
Reserves	17(a)	7,489	5,737
Accumulated losses	17(b)	(95,784)	(68,436)
Non-controlling interests	18	<u>105</u>	<u>-</u>
<b>Total equity</b>		<b><u>11,779</u></b>	<b><u>16,995</u></b>

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

**QRxPharma Limited**  
**Consolidated statements of changes in equity**  
**For the year ended 30 June 2010**

	Attributable to the owners of QRxPharma Limited			Total \$'000	Non- controlling interests \$'000	Total equity \$'000
	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000			
<b>Balance at 1 July 2008</b>	79,694	3,584	(54,941)	28,337	-	28,337
<b>Total comprehensive loss for the year</b>	-	620	(13,495)	(12,875)	-	(12,875)
<b>Transactions with owners in their capacity as owners:</b>						
Employee share scheme	-	1,533	-	1,533	-	1,533
<b>Balance at 30 June 2009</b>	<b>79,694</b>	<b>5,737</b>	<b>(68,436)</b>	<b>16,995</b>	<b>-</b>	<b>16,995</b>
<b>Total comprehensive loss for the year</b>	-	(172)	(27,348)	(27,520)	(126)	(27,646)
<b>Transactions with owners in their capacity as owners:</b>						
Contributions of equity, net of transaction costs	20,275	-	-	20,275	-	20,275
Employee share scheme	-	1,461	-	1,461	116	1,577
Transactions with non-controlling interest reserve	-	463	-	463	115	578
	20,275	1,752	(27,348)	(5,321)	105	(5,216)
<b>Balance at 30 June 2010</b>	<b>99,969</b>	<b>7,489</b>	<b>(95,784)</b>	<b>11,674</b>	<b>105</b>	<b>11,779</b>

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

**QRxPharma Limited**  
**Consolidated statements of cash flows**  
**For the year ended 30 June 2010**

	Notes	2010 \$'000	2009 \$'000
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees (inclusive of goods and services tax)		<u>(25,635)</u>	<u>(17,956)</u>
Interest received		274	813
Grant received	6	<u>-</u>	<u>150</u>
<b>Net cash (outflow) from operating activities</b>	25	<u>(25,361)</u>	<u>(16,993)</u>
<b>Cash flows from investing activities</b>			
Proceeds from sales of shares in subsidiaries	24	578	-
Payments for property, plant and equipment		<u>(31)</u>	<u>(230)</u>
<b>Net cash (outflow) from investing activities</b>		<u>547</u>	<u>(230)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	16	21,725	-
Payments made in relation to capital raising	16	<u>(1,450)</u>	<u>-</u>
<b>Net cash inflow / (outflow) from financing activities</b>		<u>20,275</u>	<u>-</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<u>(4,539)</u>	<u>(17,223)</u>
Cash and cash equivalents at the beginning of the financial year		17,773	29,672
Effects of exchange rate changes on cash and cash equivalents		<u>(474)</u>	<u>5,324</u>
<b>Cash and cash equivalents at end of year</b>	9	<u>12,760</u>	<u>17,773</u>

*The above consolidated statements 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 financial report 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

This general purpose financial 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.

#### *Compliance with IFRS*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures the financial report of QRxPharma Limited complies with International Financial Reporting Standards (IFRS).

#### *Historical cost convention*

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

#### *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.

#### *Financial statement presentation*

The Group has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

### 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 \$20.2 million net of transaction costs, through a share placement and rights issue and at 30 June 2010, the Group holds cash and cash equivalents of \$12.8 million (2009 : \$17.8 million).

The ability of the company to continue as a going concern for 12 months from the date of this financial report is dependent upon the company being successful in completing a further capital raising to provide significant funding to meet the company's ongoing research and development costs and execute on the corporate strategy.

As a result of these matters, there is significant uncertainty whether the company will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

Given the success of past capital raisings by the company and management's plan to raise further funds, the directors have prepared the financial report on a going concern basis. The directors remain confident about the successful outcome of the above factors and therefore no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

### 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 2010 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.

## **1 Summary of significant accounting policies (continued)**

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, 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.

### *(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.

#### *Change in accounting policy*

The Group has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in any change in the number of reportable segments presented.

### **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 income statement, 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.

#### *(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

## 1 Summary of significant accounting policies (continued)

- 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

#### *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.

#### *Change in accounting policy*

## **1 Summary of significant accounting policies (continued)**

A revised AASB 3 Business Combinations became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets

If the Group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

### **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.

### **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) Non-current assets (or disposal groups) held for sale and discontinued operations**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

## 1 Summary of significant accounting policies (continued)

### m) 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 10).

#### *(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.

#### **Financial Assets – reclassification**

The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

#### **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. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the profit and loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. 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. 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.

#### **Subsequent measurement**

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.

#### **Fair value**

The fair value of the available for sale financial assets has been determined using valuation techniques fully described in Note 2 (d).

## 1 Summary of significant accounting policies (continued)

### n) 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

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

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)).

### o) 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.

### p) 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.

### q) 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 22). 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.

### r) 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

## **1 Summary of significant accounting policies (continued)**

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 28.

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, including payroll tax, are recognised and included in the employee benefit liabilities and costs when the employee benefits to which they relate are recognised.

## **s) 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. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

## **t) 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 shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## **u) 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.

## **v) 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

## 1 Summary of significant accounting policies (continued)

which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

### w) 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.

### x) Parent entity financial information

The financial information for the parent entity, QRxPharma Limited, disclosed in note 27 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.

### y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 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 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share based Payment Transactions [AASB 2]** (effective from 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a Group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the Group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the Group share-based payment arrangement should be measured, that is, whether it is measured as an equity- or a cash-settled transaction. The Group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the Group's or the parent entity's financial statements.

#### (ii) **AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]** (effective from 1 February 2010)

In October 2009 the AASB issued an amendment to AASB 132 Financial Instruments: Presentation which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The Group will apply the amended standard from 1 July 2010. As the Group has not made any such rights issues, the amendment will not have any effect on the Group's or the parent entity's financial statements.

#### (iii) **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.

#### (iv) **Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards** (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the amended standard from 1 July 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

#### (v) **AASB Interpretation 19 Extinguishing financial liabilities with equity instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19** (effective from 1 July 2010)

## 1 Summary of significant accounting policies (continued)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the Group or the parent entity's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the Group has not entered into any debt for equity swaps since that date.

**(vi) AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 July 2010/1 January 2011)**

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Group will apply the amendments from 1 July 2010. It does not expect that any adjustments will be necessary as a result of applying the revised rules.

**(vii) 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.

**(viii) AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 January 2010)**

In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards. The Group will apply the revised standards from 1 July 2010. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

## 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:

	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
<b>Financial assets</b>		
Cash and cash equivalents	<b>12,760</b>	17,773
Trade and other receivables	<b>76</b>	66
Available for sale financial assets	<b>407</b>	-
	<b><u>13,243</u></b>	<u>17,839</u>
<b>Financial liabilities</b>		
Trade and other payables	<b>2,094</b>	1,684
	<b><u>2,094</u></b>	<u>1,684</u>

### (a) Market risk

#### (i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from currency exposure to the US dollar. 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 ended 30 June 2010, the Group entered into a series of Flexible Forward foreign exchange contracts to protect against adverse foreign exchange movements between the AUD and USD. Each contract stood alone and all had matured by 30 June 2010. Each contract had a floor rate of US\$0.91 and a ceiling of US\$0.98. On the maturity of each contract, if the spot rate was below the floor rate, the Company was obligated to buy the contracted amount of US dollars from the bank at US\$0.91. If the spot rate was above the ceiling rate on contract maturity, the Company was obligated to buy the contracted amount of US dollars from the bank at US\$0.98. If the spot rate was between US\$0.91 and US\$0.98, there was no obligation by either the bank or the Company.

During the year, the Group converted A\$15.7 million at an average AUD to USD exchange rate of US\$0.916. The Group converted a further A\$ 2.2 million to USD at an AUD to USD rate of US\$0.91.

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

	30 June 2010		30 June 2009	
	USD \$'000	EUR \$'000	USD \$'000	EUR \$'000
Cash at bank	353	-	158	-
Term deposits	6,708	226	13,009	68
Trade payables	115	-	829	-

#### *Group sensitivity*

Based on the financial instruments held at 30 June 2010, had the Australian dollar weakened / strengthened by 15% (2009 - 10%) against the US dollar with all other variables held constant, the Group's post-tax loss for the year would have been \$1.5 million lower / \$1.1 million higher (2009 - \$1.9 million lower / \$1.4 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.

#### (ii) Price risk

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

## 2 Financial Risk Management (continued)

### (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 commercial bills and 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 2010 was \$nil (2009 - \$nil), thus limiting the Group's exposure to any cash flow risk in relation to liabilities.

#### *Group sensitivity*

As at 30 June 2010, if interest rates had changed by +/- 40 basis points (2009 +/- 40 basis points) from the year-end rates with all other variables held constant, the post-tax loss for the year would have been \$8,000 higher / \$6,000 lower (2009 - \$16,100 higher / 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 2010, cash equivalents were held with an Aa1 and an A3 financial institution, as rated 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 2010. Due to negative 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 2010, the Group had no overdue liabilities. The value of trade creditors at 30 June 2010 for the Group was \$1,313,000 (2009 - \$824,000) which is payable within 1 month of year end and at 30 June 2010, the entity carried cash and cash equivalents of \$12.8 million (2009 - \$17.8 million). Other payables for the Group include accruals for employee benefits and other accruals to the value of \$781,000 (2009 - \$860,000).

The Group also holds a Sponsored Research Agreement with the University of Alabama. The Group is committed to paying the University of Alabama USD 400,000 per annum, payable quarterly for five years from 25 May 2007. This agreement can be terminated by the Group at any time without cause upon 12 months prior written notice to the University of Alabama.

### (d) Fair value measurements

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

As of 1 July 2009, QRxPharma Limited has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which 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 following table presents the group's assets measured and recognised at fair value at 30 June 2010. Comparative information as not been provided as permitted by the transitional provisions of the new rules.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Available-for-sale financial assets				
Equity securities	-	-	407	407
Total assets	-	-	407	407

## 2 Financial Risk Management (continued)

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. There has been no change in the fair value of financial assets during the reporting period. There have been no changes to level 3 instruments for the year ended 30 June 2010.

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

### *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.

	Carrying amount \$'000	Foreign exchange risk				Interest rate risk			
		-10% Profit \$'000	Equity \$'000	+10% Profit \$'000	Equity \$'000	-40bps Profit \$'000	Equity \$'000	+40bps Profit \$'000	Equity \$'000
<b>30 June 2010</b>									
<b>Financial assets</b>									
Cash and cash equivalents	12,760	1,462	-	(1,081)	-	(6)	-	8	-
<b>Financial liabilities</b>									
Trade payables	1,313	24	-	18	-	-	-	-	-
<b>Total increase/ (decrease)</b>		<b>1,486</b>	<b>-</b>	<b>(1,063)</b>	<b>-</b>	<b>(6)</b>	<b>-</b>	<b>8</b>	<b>-</b>
	Carrying amount \$'000	-10% Profit \$'000	Equity \$'000	+10% Profit \$'000	Equity \$'000	-40bps Profit \$'000	Equity \$'000	+40bps Profit \$'000	Equity \$'000
<b>30 June 2009</b>									
<b>Financial assets</b>									
Cash and cash equivalents	17,773	1,803	-	(1,475)	-	(16)	-	16	-
<b>Financial liabilities</b>									
Trade payables	824	(114)	-	93	-	-	-	-	-
<b>Total increase/ (decrease)</b>		<b>1,689</b>	<b>-</b>	<b>(1,382)</b>	<b>-</b>	<b>(16)</b>	<b>-</b>	<b>16</b>	<b>-</b>

## 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 \$1.6 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 28.

#### 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

	2010 \$'000	2009 \$'000
<b>From continuing operations</b>		
Interest	<u>261</u>	<u>719</u>

#### 6 Other income

	2010 \$'000	2009 \$'000
Foreign exchange gain	-	5,324
Gain on loss of control in Venomics Hong Kong Limited	405	-
Export market development grant	<u>-</u>	<u>150</u>
	<u>405</u>	<u>5,474</u>

#### 7 Expenses

	2010 \$'000	2009 \$'000
<b>Loss before income tax includes the following specific expenses:</b>		
<i>Depreciation and amortisation</i>		
Plant and equipment	<u>65</u>	<u>29</u>
<i>Net foreign exchange loss</i>	<u>474</u>	<u>-</u>
<i>Employee benefit expense</i>		
Employee benefit expense	4,447	4,616
Defined contribution superannuation expense	58	42
Share option expense	<u>1,576</u>	<u>1,533</u>
	<u>6,081</u>	<u>6,191</u>
<i>Research and development</i>		
Research and development expensed	<u>18,006</u>	<u>11,937</u>
<i>Rental expenses relating to operating leases</i>		
Minimum lease payments	<u>128</u>	<u>136</u>

**8 Income tax benefit**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Loss from continuing operations before income tax expense	<u>(27,474)</u>	<u>(13,495)</u>
Tax at the Australian tax rate of 30% (2009 – 30%)	<u>(8,242)</u>	<u>(4,048)</u>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	<u>473</u>	<u>461</u>
	<u>(7,769)</u>	<u>(3,587)</u>
Adjustment for current tax of prior periods	<u>(1,080)</u>	<u>701</u>
Income tax losses not recognised	<u>8,849</u>	<u>2,886</u>
Income tax expense	<u>-</u>	<u>-</u>

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(b) Tax losses</b>		
Unused tax losses for which no deferred tax asset has been recognised	<u>66,629</u>	<u>37,131</u>
Potential tax benefit @ 30%	<u>19,989</u>	<u>11,139</u>

No deferred tax asset has been recognised for the tax losses 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).

## 9 Current assets - Cash and cash equivalents

	2010 \$'000	2009 \$'000
Cash at bank	1,224	527
Term deposits	11,536	16,153
Commercial bills	-	1,093
	<b>12,760</b>	<b>17,773</b>

### (a) Cash at bank

These bear an average interest rate of 4.4% (2009: 2.9%) for the AUD accounts and 0% (2009: 0.25% on balances over USD 50,000) 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 0.18% (2009: 0.4%). These deposits have a maturity of less than 3 months.

The EUR deposits bear an average fixed interest rate of 0.19% (2009: n/a). These deposits have a maturity of less than 3 months.

The AUD deposits bear an average fixed interest rate of 4.80% (2009: n/a). These deposits have a maturity of less than 3 months.

### (c) Commercial bills

At 30 June 2010, the company held no commercial bills. At 30 June 2009, the commercial bills were in Australian dollars and bore an average interest rate of 2.9%. They had a maturity of less than 3 months.

## 10 Current assets - Trade and other receivables

	2010 \$'000	2009 \$'000
Interest receivable	11	11
Other receivables	65	55
	<b>76</b>	<b>66</b>

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 2010 no receivables were impaired or past due (30 June 2009: nil).

## 11 Current assets - Other current assets

	2010 \$'000	2009 \$'000
Prepayments	390	566

## 12 Non-current assets – Available-for-sale financial assets

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Unlisted securities		
Equity securities	<u>407</u>	<u>-</u>

### (a) Investments in related parties

In October 2009, Liaoning Nuokang Medicines Co. Ltd., a Chinese biopharmaceutical company based in Shenyang, China, invested US\$5 million for a controlling interest in Venomics Hong Kong Limited a company established to develop and commercialise the Group's venomics assets, Textilin in and Haempatch™, for the Chinese market. Venomics Pty Limited, which is a majority owned subsidiary of QRxPharma Limited and holds all of the venomics assets of the Group, maintains a minority interest in Venomics Hong Kong Limited. Data generated through the development of these products in China will support partnering activities in other territories, the rights of which have been retained by Venomics Pty Limited. The available for sale financial asset represents the Group's 6.98% investment in Venomics Hong Kong Limited.

## 13 Non-current assets - Property, plant and equipment

	<b>\$'000</b>
<b>At 1 July 2008</b>	
Cost	195
Accumulated depreciation	<u>(122)</u>
Net book amount	<u>73</u>
 <b>Year ended 30 June 2009</b>	
Opening net book amount	73
Additions	230
Depreciation charge	<u>(29)</u>
Closing net book amount	<u>274</u>
 <b>At 30 June 2009</b>	
Cost	425
Accumulated depreciation	<u>(151)</u>
Net book amount	<u>274</u>
 <b>Year ended 30 June 2010</b>	
Opening net book amount	274
Additions	31
Depreciation charge	<u>(65)</u>
Closing net book amount	<u>240</u>
 <b>At 30 June 2010</b>	
Cost	456
Accumulated depreciation	<u>(216)</u>
Net book amount	<u>240</u>

#### 14 Non-current assets - Intangible assets

	Patents, trademarks and other rights \$'000	Other intangible assets \$'000	Total \$'000
<b>Year ended 30 June 2009</b>			
Opening net book amount	-	-	-
Impairment of intellectual property*	-	-	-
Amortisation charge	-	-	-
Closing net book amount	<u>-</u>	<u>-</u>	<u>-</u>
<b>At 30 June 2009</b>			
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>

\*The carrying amount of the Torsin IP asset was reduced to its recoverable amount of \$nil through recognition of an impairment loss against the asset.

	Patents, trademarks and other rights \$'000	Other intangible assets \$'000	Total \$'000
<b>Year ended 30 June 2010</b>			
Opening net book amount	-	-	-
Impairment of intellectual property	-	-	-
Amortisation charge	-	-	-
Closing net book amount	<u>-</u>	<u>-</u>	<u>-</u>
<b>At 30 June 2010</b>			
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>

#### 15 Current liabilities - Trade and other payables

	2010 \$'000	2009 \$'000
Trade payables	1,313	824
Accrued employee benefits	468	768
Other payables	<u>313</u>	<u>92</u>
	<u>2,094</u>	<u>1,684</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.

## 16 Contributed equity

	2010 Shares	2009 Shares	2010 \$'000	2009 \$'000
<b>(a) Share capital</b>				
Ordinary shares - fully paid	<u>102,475,000</u>	<u>75,000,000</u>	<u>99,969</u>	<u>79,694</u>

### (b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$'000
1 July 2008	Opening Balance	<u>75,000,000</u>		<u>79,694</u>
30 June 2009	Balance	75,000,000		79,694
19 November 2009	Share placement	10,000,000	\$0.80	8,000
23 December 2009	Rights issue	17,000,000	\$0.80	13,600
2 March 2010	Exercise of employee options	92,400	\$0.20	18
18 March 2010	Exercise of employee options	40,000	\$0.20	8
31 March 2010	Exercise of employee options	92,400	\$0.20	18
29 April 2010	Exercise of employee options	95,200	\$0.20	19
29 April 2010	Exercise of employee options	30,000	\$0.65	20
2 June 2010	Exercise of employee options	100,000	\$0.37	37
21 June 2010	Exercise of employee options	25,000	\$0.20	5
	Less: Transaction costs arising on issue of shares	<u>-</u>		<u>(1,450)</u>
30 June 2010	Balance	<u>102,475,000</u>		<u>99,969</u>

During the 30 June 2010 year, QRxPharma Limited successfully raised \$21.6 million (before expenses) as a result of a fully underwritten institutional placement raising \$8 million and a fully underwritten 1 for 5 renounceable rights issue raising a further \$13.6 million. The issue price under the placement and rights Issue was \$0.80 per share resulting in the issue of 27 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.

### (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 28.

### (e) Capital risk management

The Group's and the parent entity'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 private placement and rights issue to strengthen the company's capital. Refer 16(b) above for further details.

## 17 Reserves and accumulated losses

	2010	2009
	\$'000	\$'000
<b>(a) Reserves</b>		
Share-based payments reserve	6,893	5,432
Foreign currency translation reserve	133	305
Transactions with non-controlling interest reserve	<u>463</u>	<u>-</u>
	<u>7,489</u>	<u>5,737</u>
<b>Movements:</b>		
<i>Share-based payments reserve</i>		
Balance 1 July	5,432	3,899
Option expense	1,576	1,533
Non-controlling interest	<u>(115)</u>	<u>-</u>
Balance 30 June	<u>6,893</u>	<u>5,432</u>
<i>Foreign currency translation reserve</i>		
Balance 1 July	305	(315)
Currency translation differences arising during the year	<u>(172)</u>	<u>620</u>
Balance 30 June	<u>133</u>	<u>305</u>
<i>Transactions with non-controlling interest reserve</i>		
Balance 1 July	-	-
Sale of shares in Venomics Pty Limited	<u>463</u>	<u>-</u>
Balance 30 June	<u>463</u>	<u>-</u>

### (b) Accumulated losses

Movements in accumulated losses were as follows:

	2010	2009
	\$'000	\$'000
Balance at 1 July 2009	(68,436)	(54,941)
Net loss for the year	<u>(27,348)</u>	<u>(13,495)</u>
Balance 30 June	<u>(95,784)</u>	<u>(68,436)</u>

### (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.

## 18 Non-controlling interests

	2010	2009
	\$'000	\$'000
Interests in:		
Share capital	116	-
Reserves	115	-
Retained earnings	(126)	-
	105	-

Refer to note 24(a) for additional information.

## 19 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:

<i>Name</i>	<i>Position</i>
Warren C Stern	Executive Vice President, Drug Development
Chris J Campbell	Chief Financial Officer and Company Secretary
Philip J Magistro	Chief Commercial Officer
Patricia T Richards	Chief Medical Officer
M. Janette Dixon (from 23 September 2009)	Vice President Global Development

All of the above persons, except for M. Janette Dixon were also key management persons during the year ended 30 June 2009.

### (c) Key management personnel compensation

	2010	2009
	\$	\$
Short-term employee benefits	2,319,365	2,659,314
Post-employment benefits	34,985	27,226
Share-based payments	725,540	1,202,155
	3,079,890	3,888,695

The company has taken advantage of the relief provided by *Corporations Regulation* 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in the remuneration report on pages 10 to 17.

## 19 Key management personnel disclosures (continued)

### (c) Key management personnel compensation (continued)

M. Janette Dixon was appointed a director of Venomics Pty Limited on 23 September 2009 and is considered to fall within the definition of group executive from that date. Fees and bonus payments were made pursuant to consultancy agreements held with BioComm Strategy Pte Ltd. In addition to the share based payments expense above, on 7 July 2009, Janette Dixon was issued a 10% interest in Venomics Pty Limited as a reward for services rendered. Refer not 24(a) for further details.

### (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 on page 16.

#### (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.

<b>2010</b>	Balance at start of the year	Granted as compensation	Exercised	Forfeited	Balance at end of the year	Vested and exercisable	Unvested
<b>Directors of QRxPharma Limited</b>							
Peter C Farrell	604,089	-	-	-	604,089	604,089	-
John W Holaday	805,452	300,000	-	-	1,105,452	805,452	300,000
Gary W Pace	402,726	-	-	-	402,726	402,726	-
Michael A Quinn	402,726	-	-	-	402,726	402,726	-
R Peter Campbell	241,635	-	-	-	241,635	241,635	-
<b>Other key management personnel of the Group</b>							
Warren C Stern	880,452	137,500	(30,000)	-	987,952	812,952	175,000
Chris J Campbell	477,726	150,000	(25,000)	-	602,726	415,226	187,500
Patricia T Richards	560,000	130,000	-	-	690,000	363,333	326,667
Philip J Magistro	260,000	130,000	-	-	390,000	163,333	226,667
M. Janette Dixon (from 23 September 2009)	100,000	350,000	(100,000)	-	350,000	-	350,000

<b>2009</b>	Balance at start of the year	Granted as compensation	Exercised	Forfeited	Balance at end of the year	Vested and exercisable	Unvested
<b>Directors of QRxPharma Limited</b>							
Peter C Farrell	604,089	-	-	-	604,089	402,726	201,363
John W Holaday	805,452	-	-	-	805,452	536,968	268,484
Gary W Pace	402,726	-	-	-	402,726	268,484	134,242
Michael A Quinn	402,726	-	-	-	402,726	268,484	134,242
R Peter Campbell	241,635	-	-	-	241,635	161,090	80,545
<b>Other key management personnel of the Group</b>							
Warren C Stern	805,452	75,000	-	-	880,452	536,968	343,484
Chris J Campbell	402,726	60,000	-	-	477,726	268,484	209,242
Patricia T Richards	500,000	60,000	-	-	560,000	166,667	393,333
Philip J Magistro	200,000	60,000	-	-	260,000	66,667	193,333
Joseph J Berry (resigned 30 March 2010)	150,000	60,000	-	-	210,000	50,000	160,000

## 19 Key management personnel disclosures (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.

2010	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				
<b>Directors of QRxPharma Limited</b>				
<b>Ordinary shares</b>				
Peter C Farrell	1,380,540	-	250,000	1,630,540
John W Holaday	7,543,000	-	66,635	7,609,635
Gary W Pace	3,230,083	-	150,000	3,380,083
Michael A Quinn	8,297,307	-	77,064	8,374,371
R Peter Campbell	85,000	-	17,000	102,000
<b>Other key management personnel of the Group</b>				
<b>Ordinary shares</b>				
Warren C Stern	-	30,000	-	30,000
Chris J Campbell	-	25,000	-	25,000
Patricia T Richards	-	-	-	-
Philip J Magistro	-	-	-	-
M. Janette Dixon (from 23 September 2009)	200,000	100,000	(100,000)	200,000

2009	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				
<b>Directors of QRxPharma Limited</b>				
<b>Ordinary shares</b>				
Peter C Farrell	1,280,540	-	100,000	1,380,540
John W Holaday	7,543,000	-	-	7,543,000
Gary W Pace	3,230,083	-	-	3,230,083
Michael A Quinn <sup>^</sup>	9,471,749	-	(1,174,442)	8,297,307
R Peter Campbell	85,000	-	-	85,000
<b>Other key management personnel of the Group</b>				
<b>Ordinary shares</b>				
Warren C Stern	-	-	-	-
Chris J Campbell	-	-	-	-
Patricia T Richards	-	-	-	-
Philip J Magistro	-	-	-	-
Joseph J Berry (resigned 30 March 2010)	-	-	-	-

<sup>^</sup> The Director is also a Director of Innovation Capital Associates Pty Limited, who acts as the trustee of the Innovation Capital QRx I & II Trusts. The movement for the year includes a net distribution of 1,174,442 shares to beneficiaries of the Innovation Capital QRx I & II Trusts other than the Director, after the expiration of voluntary escrows on 25 May 2009. The Director has no continuing relevant interest in these shares.

### (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 \$97,266 (2009: \$131,532).

## 20 Remuneration of auditors

	2010	2009
	\$	\$
(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>110,000</u>	<u>96,000</u>
Other assurance services		
Accounting advisory services	<u>16,200</u>	<u>33,250</u>
Total remuneration for audit and other assurance services	<u>126,200</u>	<u>129,250</u>
<i>Taxation services</i>		
Tax compliance services	4,660	6,280
International tax consulting and advice	<u>26,100</u>	<u>82,605</u>
Total remuneration for taxation services	<u>30,760</u>	<u>88,885</u>
 Total remuneration of PricewaterhouseCoopers Australia	 <u>156,960</u>	 <u>218,135</u>
 <b>(b) Related practices of PricewaterhouseCoopers Australia</b>		
<i>Taxation services</i>		
Tax compliance services	<u>37,025</u>	<u>66,218</u>
Total remuneration of related practices of PricewaterhouseCoopers Australia	<u>37,025</u>	<u>66,218</u>
 <b>Total auditors remuneration</b>	 <u>193,985</u>	 <u>284,353</u>

## 21 Contingencies

As detailed in note 3 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.

## 22 Commitments

### (a) University of Alabama

The Group also holds a Sponsored Research Agreement with the University of Alabama. The Group is committed to paying the University of Alabama USD 400,000 per annum, payable quarterly for five years from 25 May 2007. This agreement can be terminated by the Group at any time without cause upon 12 months prior written notice to the University of Alabama and upon payment of all amounts due.

### (b) Operating Leases

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

	2010	2009
	\$'000	\$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	63	128
Later than one year but not later than five years	<u>13</u>	<u>57</u>
	<u>76</u>	<u>185</u>

## 23 Related party transactions

### (a) Subsidiaries

Interests in subsidiaries are set out in note 24.

### (b) Key management personnel

Disclosures relating to key management personnel are set out in note 19.

### (c) Outstanding balances

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

## 24 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	
			2010	2009
			%	%
The Lynx Project Pty Limited	Australia	Ordinary	<b>100</b>	100
Haempatch Pty Limited	Australia	Ordinary /Preference	<b>100</b>	100
QRxPharma, Inc.	USA	Ordinary	<b>100</b>	100
Venomics Pty Limited	Australia	Ordinary	<b>80</b>	100

### (a) Transactions with non-controlling interests

On 7 July 2009 Janette Dixon was issued a 10% interest in Venomics Pty Limited as a reward for services rendered. In accordance with AASB 2 Share-based payments, this transaction was measured at fair value, with reference to similar transactions, and resulted in a share based payments expense of A\$578,000. There were no transactions with non-controlling interests in 2009.

On 23 September 2009, QRxPharma Limited issued shares amounting to a 10% interest in Venomics Pty Limited to Liaoning Nuokang Medicines Co. Ltd, a Chinese biopharmaceutical company based in Shenyang, China for US\$500,000. The carrying amount of the non-controlling interests in Venomics Pty Limited on the date the transaction was A\$115,000. The Group recognised consideration on the sale of a 10% interest of A\$578,000 and an increase in equity attributable to the owners of the parent of A\$463,000. The effect of changes in the ownership interest of QRxPharma Limited on the equity attributable to the owners of QRxPharma Limited during the year is summarised as follows:

	2010 \$'000	2009 \$'000
Consideration received for non-controlling interest	578	-
Carrying amount of controlling interest	<u>(115)</u>	<u>-</u>
Excess of consideration received recognised in the transactions with non-controlling interest reserve within equity	<u>463</u>	<u>-</u>

## 25 Reconciliation of profit after income tax to net cash outflow from operating activities

	2010 \$'000	2009 \$'000
Loss for the year	(27,474)	(13,495)
Depreciation and amortisation	65	29
Non-cash employee benefits expense - share-based payments	1,576	1,533
Net exchange differences on cash and cash equivalents	295	(4,704)
Gain on loss of control of Venomics Hong Kong Limited	(405)	-
Change in operating assets and liabilities		
(Increase)/decrease in other receivables and prepayments	177	(16)
Increase/(decrease) in trade creditors and accruals	405	(340)
Increase/(decrease) in other operating liabilities	-	-
Net cash outflow from operating activities	(25,361)	(16,993)

## 26 Loss per share

	2010 Cents	2009 Cents
<b>(a) Basic loss per share</b>		
Loss from continuing operations attributable to the ordinary equity holders of the company	(30.3)	(18.0)
<b>(b) Diluted loss per share</b>		
Loss from continuing operations attributable to the ordinary equity holders of the company	(30.3)	(18.0)
<b>(c) Reconciliations of earnings used in calculating earnings per share</b>		
	2010 \$'000	2009 \$'000
<i>Basic loss per share</i>		
Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share	(27,348)	(13,495)
<i>Diluted loss per share</i>		
Loss attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	(27,348)	(13,495)
<b>(d) Weighted average number of shares used as the denominator</b>		
	2010 Number	2009 Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic loss per share</i>	90,384,036	75,000,000
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share</i>	90,384,036	75,000,000

## (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 28.

## 27 Parent entity financial information

### (a) Summary financial information

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

<b>Balance Sheet</b>	<b>2010</b> <b>\$'000</b>	2009 \$'000
Current assets	12,212	17,866
Total assets	13,469	20,231
Current liabilities	1,831	3,263
Total liabilities	1,831	3,263
<i>Shareholders' equity</i>		
Issued capital	99,969	79,694
Share based payment reserve	6,430	5,432
Accumulated losses	<u>(94,761)</u>	<u>(68,158)</u>
	<u>11,638</u>	<u>16,968</u>
<b>(Loss) for the year</b>	<u>(26,603)</u>	<u>(12,875)</u>
<b>Total comprehensive (loss) / income</b>	<u>(26,603)</u>	<u>(12,875)</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 2010 or 30 June 2009.

### (d) Commitments of the parent entity

The parent entity leases office premises in Sydney, Australia.

	<b>2010</b> <b>\$'000</b>	2009 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	5	29
Later than one year but not later than five years	<u>6</u>	<u>2</u>
	<u>11</u>	<u>31</u>

## **28 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 capitalization 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 2010 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 16. 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 16(c)).

### **(b) JP Morgan Securities Australia Limited Deed**

In part consideration for underwriting services in relation to the IPO, the Company granted JP Morgan Securities Australia Limited 322,181 options to purchase 322,181 ordinary shares in the Company at an exercise price of \$2.20. These options vested on 25 November 2007 and expired on 25 May 2010.

## 28 Share-based payments (continued)

(c) 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
<b>2010</b>								
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	\$2.00	1,448,450	-	-	-	1,448,450	1,448,450
25 May 2007	25 May 2014	\$1.00	552,726	-	-	-	552,726	552,726
25 May 2007	25 May 2010	\$2.20	322,181	-	-	(322,181)	-	-
1 September 2007	1 September 2014	\$1.70	50,000	-	-	-	50,000	33,333
1 October 2007	1 October 2014	\$1.45	75,000	-	-	-	75,000	50,000
9 October 2007	9 October 2014	\$1.34	50,000	-	-	-	50,000	33,333
1 January 2008	1 January 2015	\$1.11	350,000	-	-	(150,000)	200,000	133,333
1 April 2008	1 April 2015	\$1.05	600,000	-	-	-	600,000	400,000
1 April 2008	1 April 2015	\$1.04	75,000	-	-	-	75,000	50,000
1 October 2008	1 October 2015	\$0.60	50,000	-	-	-	50,000	16,667
4 November 2008	4 November 2015	\$0.37	100,000	-	(100,000)	-	-	-
1 January 2009	1 January 2016	\$0.20	710,000	-	(345,000)	(35,000)	330,000	165,000
31 August 2009	31 August 2016	\$0.65	-	537,500	(30,000)	(30,000)	477,500	-
1 October 2009	1 October 2016	\$0.90	-	150,000	-	-	150,000	-
16 November 2009	16 November 2016	\$1.12	-	300,000	-	-	300,000	-
1 January 2010	1 January 2017	\$0.78	-	100,000	-	-	100,000	-
17 February 2010	17 February 2017	\$0.84	-	565,000	-	-	565,000	-
24 March 2010	24 March 2014	\$1.26	-	295,000	-	-	295,000	-
Total			6,799,713	1,947,500	(475,000)	(537,181)	7,735,032	5,299,199
Weighted average exercise price			\$1.22	\$0.90	\$0.26	\$1.68	\$1.17	\$1.30

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
<b>2009</b>								
31 March 2007	31 March 2014	\$1.42	402,726	-	-	-	402,726	268,484
14 April 2007	14 April 2014	\$1.00	2,013,630	-	-	-	2,013,630	1,342,420
25 May 2007	25 May 2014	\$2.00	1,448,450	-	-	-	1,448,450	965,633
25 May 2007	25 May 2014	\$1.00	552,726	-	-	-	552,726	368,484
25 May 2007	25 May 2010	\$2.20	322,181	-	-	-	322,181	214,787
1 September 2007	1 September 2014	\$1.70	50,000	-	-	-	50,000	16,667
1 October 2007	1 October 2014	\$1.45	75,000	-	-	-	75,000	25,000
9 October 2007	9 October 2014	\$1.34	50,000	-	-	-	50,000	16,667
1 January 2008	1 January 2015	\$1.11	350,000	-	-	-	350,000	116,667
1 April 2008	1 April 2015	\$1.05	600,000	-	-	-	600,000	200,000
1 April 2008	1 April 2015	\$1.04	75,000	-	-	-	75,000	25,000
1 October 2008	1 October 2015	\$0.60	-	50,000	-	-	50,000	-
4 November 2008	4 November 2015	\$0.37	-	100,000	-	-	100,000	-
1 January 2009	1 January 2016	\$0.20	-	710,000	-	-	710,000	10,000
Total			5,939,713	860,000	-	-	6,799,713	3,569,809
Weighted average exercise price			\$1.36	\$0.24	-	-	\$1.22	\$1.39

## 28 Share-based payments (continued)

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2010 was \$1.09. (2009 – no options exercised)

The weighted average remaining contractual life of the share options outstanding at the end of the period was 4.67 years. (2009 – 5.17 years)

### *Fair value of options granted*

The assessed fair value at grant date of options granted during the year ended 30 June 2010 was \$0.59 per option (2009 - \$0.10). 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 2010 included:

- (a) exercise price: \$0.65 to \$1.26 (2009 - \$0.20 to \$0.60)
- (b) grant date: 31 August 2009, 1 October 2009, 16 November 2009, 1 January 2010, 17 February 2010, 24 March 2010 (2009 – 1 October 2008, 4 November 2008, 1 January 2009)
- (c) expiry date: 31 August 2016, 1 October 2016, 16 November 2016, 1 January 2017, 17 February 2017, 24 March 2017 (2009 -1 October 2015, 4 November 2015, 1 January 2016)
- (d) share price at grant date: \$0.65 to \$1.12 (2009 - \$0.20 to \$0.60)
- (e) expected price volatility of the company's shares: 80% (2009 - 60%)
- (f) expected dividend yield: nil% (2009 - nil%)
- (g) risk-free interest rate: 5.3% (2009 - 5.18%).

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.

### (d) 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:

	2010	2009
	\$'000	\$'000
Options issued under employee option plan	<b>1,576</b>	1,533

## 29 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.

## Directors' declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 25 to 59 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of their performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

Note 1 (a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



Peter C Farrell  
Director

Sydney  
29 September 2010

PricewaterhouseCoopers  
ABN 52 780 433 757

Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999  
[www.pwc.com/au](http://www.pwc.com/au)

## **Independent auditor's report to the members of QRxPharma Limited**

### **Report on the financial report**

We have audited the accompanying financial report of QRxPharma Limited (the company), which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the QRxPharma Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

**Independent auditor's report to the members of  
QRxPharma Limited (continued)**

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

*Independence*

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

*Auditor's opinion*

In our opinion:

- (a) the financial report of QRxPharma Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

*Significant Uncertainty Regarding Continuation as a Going Concern*

Without qualification to our opinion expressed above, we draw attention to Note 1 in the financial report which comments on the ability of the company to continue as a going concern and have sufficient funding to meet the research and development activities of the company, being dependent on the company undertaking a further capital raising. Accordingly there is a significant uncertainty about whether QRxPharma Limited and its controlled entities will continue as a going concern and therefore, whether the consolidated entity will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report

**Report on the Remuneration Report**

We have audited the remuneration report included in pages 9 to 17 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

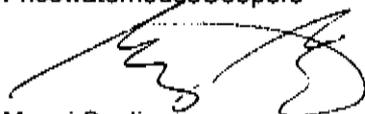
**Independent auditor's report to the members of  
QRxPharma Limited (continued)**

*Auditor's opinion*

In our opinion, the remuneration report of QRxPharma Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers



Manoj Santiago  
Partner

Sydney  
29 September 2010

## Shareholder information

The shareholder information set out below was applicable as at 24 September 2010.

### A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Shares	Options
1 - 1,000	155	-
1,001 - 5,000	352	-
5,001 - 10,000	221	-
10,001 - 100,000	397	15
100,001 and over	82	16
	<u>1,207</u>	<u>31</u>

There are 108 holders of less than a marketable parcel of ordinary shares.

### B. Equity security holders

*Twenty largest quoted equity security holders*

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
HSBC Custody Nominees (Australia) Limited	11,427,035	11.15%
National Nominees Limited	11,012,020	10.75%
Dr John Holaday and Holaday Foundation	7,609,635	7.43%
Four Hats Financial Services Limited	7,247,372	7.07%
Innovation Capital Limited	5,269,090	5.14%
Uniquest Pty Limited	4,805,399	4.69%
Spring Ridge Ventures I, LP	4,228,673	4.13%
Merrill Lynch (Australia) Nominees Pty Limited	3,714,588	3.62%
Dr Gary Pace	3,380,083	3.30%
Citicorp Nominees Pty Limited	3,019,821	2.95%
UBS Nominees	3,005,604	2.93%
UIIT Pty Limited	2,407,306	2.35%
JP Morgan Nominees Australia Limited	1,958,878	1.91%
Jigley Holdings Pty Limited	1,700,000	1.66%
Dr Peter Farrell	1,630,540	1.59%
Neweconomy Nominees Pty Limited	760,685	0.74%
Bacchus Global Assets LLC	742,366	0.72%
ITR Investments	658,380	0.64%
Mr Ross Richard Eddison	638,200	0.62%
RAC & JD Brice Superannuation Pty Limited	626,929	0.61%
	<u>75,842,604</u>	<u>74.01%</u>

*Unquoted equity securities*

	Number on issue	Number of holders
Options issued under the QRxPharma Limited Employee Share Option Plan to take up ordinary shares	8,010,032 *	31**

\*Number of unissued ordinary shares under the options.

\*\* No person holds 20% or more of these securities.

**C. Substantial holders**

Substantial holders in the company are set out below:

	<b>Number held</b>	<b>Percentage</b>
Ordinary shares		
Innovation Capital Limited, Innovation Capital LLC, and Innovation Capital Associates Pty Limited	7,988,287	7.80%
Dr John W Holaday and Holaday Foundation	7,609,635	7.43%
Westpac Banking Corporation	7,584,436	7.40%
Four Hats Financial Services Limited	7,247,372	7.07%
Orbis Investment Management (Australia) Pty Limited	6,019,996	5.87%

**D. Voting rights**

The voting rights attaching to each class of equity securities are set out below:

- (a) Ordinary shares  
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
- (b) Options  
No voting rights.