QRxPharma Ltd
ABN 16 102 254 151

ASX Preliminary final report – 30 June 2008

Lodged with the ASX under Listing Rule 4.3A

This report is to be read in conjunction with the annual report and any public announcements made during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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Appendix 4E Preliminary Final Report

QRxPharma Limited
ABN 16 102 254 151

1. Reporting Period

Report for the financial year ended 30 June 2008.
Previous corresponding period is the financial year ended 30 June 2007.

2. Results for announcement to the market

				$A'000
Revenue from ordinary activities *(item 2.1)*	Up	560.9%	to	2,009
Net loss from ordinary activities after tax attributable to members *(item 2.2)*	Up	8,937.5%	to	(36,602)
Net loss for the period attributable to members *(item 2.3)*	Up	8,937.5%	to	(36,602)

Brief explanation of any of the figures reported above necessary to enable the figures to be understood *(item 2.6)*

Revenue

The increase in revenue represents additional interest income earned on funds held during the year as a consequence of a net $46.3 million capital raising in May 2007. Interest earned amounted to $2.0 million (2007: $0.3 million).

Net loss from ordinary activities

- The net loss from ordinary activities increased from $0.4 million to $36.6 million. This result includes non cash charges of $18.1 million relating to an impairment charge to the Torsin intellectual property of $14.6 million and share based payments expenses of $3.5 million. Excluding these charges the loss was in line with expectations in fulfilling research and development efforts, in the progression of the Company's clincial pipeline candidates and preclinical stage drugs.

The loss includes:

- research and development expenditure of $12.7 million (2007: $2.4 million) primarily on the Company's Phase 3 clinical trial programme of its lead compound of Q8003IR
- total employee benefits expense of $5.3 million (2007: $0.7 million) due to increased headcount to manage the expanded clinical trial programmes and research and development efforts including non cash share based payments of $2.4 million (2007 $0.2 million)
- a charge of $14.6 million for the impairment of Torsin intellectual property (IP)in accordance with Accounting Standard AASB 136 "Impairment of Assets". The intellectual property is represented by an exclusive worldwide license from the University of Alabama ("UOA") of certain technology relating to the treatment of central nervous system (CNS) disorders and other related diseases
- a net unrealised foreign exchange loss of $2.6 million (2007: $0.3 million) resulting from the holding of cash reserves in US dollars. The US dollar cash reserves were converted at an average rate of US 90 cents
- $nil finance charges were recorded for the year (2007: $1.5 million). In 2007, interest expense of $1.5 million was booked from previouly issued series A preference shares and convertible notes that were converted into ordinary shares on IPO
- $nil other income was recorded for the year (2007: $5.0 million). In 2007 a writeback of accrued interest of $5.0 million associated with previously issued series A preference shares and convertible notes that were converted into ordinary shares on IPO was booked as other income.

Dividends *(items 2.4 – 2.5)* It is not proposed to a pay a dividend.

3. **Income Statement -** Refer to the attached Annual financial report

4. **Balance Sheet** - Refer to the attached Annual financial report

5. **Cash Flow Statement** - Refer to the attached Annual financial report

6. **Dividends –** It is not proposed to pay a dividend

7. **Dividends –** It is not proposed to pay a dividend

8. **Statement of Retained Earnings -** Refer to the attached Annual financial report

9. **Net Tangible Assets per Security** *(item 9)*

	30 June 2008	30 June 2007
Net tangible assets per ordinary share	$0.38	$0.62

10. The Group did not acquire or lose control over any entities during the period.

11. The Group had no associates or joint venture entities.

12. **Commentary on the results** *(item 14)*

On 25 May 2007 the Company was listed on the Australian Securities Exchange following the completion of an IPO that raised $50 million (before listing costs of $3.7 million) . The funds raised through the IPO were to fund QRxPharma's pipeline of pharmaceuticals. Specifically, the Offer was to fund the Phase 3 clinical trials and submission of a New Drug Application (NDA) for approval by the United States Food and Drug Administration (FDA) to sell and market the Company's lead drug candidate Q8003IR, an immediate release "dual opioid®" drug for the treatment of moderate to severe pain.

At 30 June 2008, the Company had cash reserves of $29.7 million (2007: $46.2 million) The operating results for the year ended 30 June 2008 are reflective of the Company's efforts to progress the clinical trial programme for its lead compound, Q8003IR, while continuing to advance its other product candidates.

Key Achievements

- **Q8003IR** – Completion ahead of schedule of our first Phase 3 clinical trial, meeting all primary and secondary endpoints with the efficacy data demonstrating statistically significant analgesic activity at all doses tested, thus reinforcing the potential clincial benefit and commercial value of QRxPharma's lead dual-opioid® product. The US Food and Drug Administration (FDA) has accepted the Company's proposed Phase 3 protocol designs and statistical analyses to demonstrate the efficacy and safety of Q8003IR. This opens the door to a streamlined NDA application process and clinical development programme, with only two further Phase 3 trials beng required for the filing of a New Drug Application.
- **Q8011CR** – A controlled release product designed to provide 12 hours of pain relief for moderate to severe chronic pain is being formulated to initiate Phase 1 studies.
- **Q8012IV** – The exciting addition of an intravenous formulation of QRxPharma's dual-opioid® providing the prescribing physician attractive new treatment options to manage moderate to severe pain.
- **Neurodegenerative Disease and Venomics** – We have continued our close association with both the University of Alabama and the University of Queensland, progressing our preclinical stage pipeline in the areas of neurodegenerative disease and venomics respectively.

- **Executive Team** – During the year, the Company established a presence in New Jersey and finalised the recruitment of specialised staff to complement the existing talent pool of Company management. Key appointments of Vice President, Commercialisation; Vice President, Operations; Senior Vice President, Clincial Research and Senior Director, Regulatory Affairs were made.
- **Scientific Advisory Board (SAB)** – Our SAB, which comprises internationally recognised leaders in the fields of pain therapy, regulatory approvals and product commercialisation has been strengthened with the appointments of Dr Lester Crawford, former Commissioner of the FDA, and Dr Gavril Pasternak, a world authority on opioid drugs.
- **Listing on the International OTCQX** - QRxPharma has initiated a Level 1 American Depositary Receipt (ADR) programme which was listed on the International OTCQX , and trading began on 30 June 2008. This listing will enable QRxPharma shares to be more accessible to US institutions and private investors and provide the Company with access to some of the deepest pools of liquidty in the world.

13. Status of audit *(items 15 to 17)*

This preliminary financial report is based on accounts which have been audited. The audit report, which was unqualified, will be made available when the Company lodges its complete Directors' and Financial Reports.

C. J. Campbell

Chris J Campbell
Company Secretary
QRxPharma Limited
21 August 2008

QRxPharma Limited ABN 16 102 254 151
Annual report - 30 June 2008

Contents

ATTACHMENT 1

This financial report covers both QRxPharma Limited as an individual entity and the consolidated entity consisting of QRxPharma Limited and its subsidiaries. The financial report is 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 St
North Sydney NSW 2060.

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

	Notes	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Revenue from continuing operations	5	**2,009**	304	**2,009**	304
Other income	6	**-**	4,951	**515**	4,951
Research and development	7	**(12,708)**	(2,376)	**(13,970)**	(2,376)
Employee benefits expense		**(5,298)**	(690)	**(2,838)**	(690)
Depreciation and amortisation	7	**(822)**	(83)	**(16)**	(11)
Finance costs	7	**-**	(1,497)	**-**	(1,497)
Other expenses		**(2,662)**	(1,090)	**(3,048)**	(1,090)
Net foreign exchange loss		**(2,618)**	(272)	**(2,648)**	(272)
Impairment of financial asset	14	**-**	-	**(17,117)**	-
Impairment of intangible asset	16	**(14,628)**	-	**-**	-
Loss before income tax		**(36,727)**	(753)	**(37,113)**	(681)
Income tax benefit	8	**125**	348	**125**	348
Loss from continuing operations		**(36,602)**	(405)	**(36,988)**	(333)
Loss for the year		**(36,602)**	(405)	**(36,988)**	(333)

	Notes	Cents	Cents
Earnings per share for loss attributable to the ordinary equity holders of the company:			
Basic loss per share	27	**(48.8)**	(2.8)
Diluted loss per share	27	**(48.8)**	(2.8)

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

	Notes	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
ASSETS					
Current assets					
Cash and cash equivalents	9	**29,672**	35,690	**29,583**	35,690
Trade and other receivables	10	**158**	136	**135**	136
Other financial assets at fair value through profit or loss	11	**-**	374	**-**	374
Held-to-maturity investments	12	**-**	10,491	**-**	10,491
Other current assets	13	**458**	118	**119**	-
Total current assets		**30,288**	46,809	**29,837**	46,691
Non-current assets					
Other financial assets at fair value through profit or loss	11	**-**	548	**-**	548
Other financial assets	14	**-**	-	**2,605**	15,620
Property, plant and equipment	15	**73**	25	**37**	25
Intangible assets	16	**-**	15,430	**-**	-
Total non-current assets		**73**	16,003	**2,642**	16,193
TOTAL ASSETS		**30,361**	62,812	**32,479**	62,884
LIABILITIES					
Current liabilities					
Trade and other payables	17	**2,024**	678	**4,169**	706
Other financial liabilities at fair value through profit or loss	11	**-**	154	**-**	154
Total current liabilities		**2,024**	832	**4,169**	860
Total liabilities		**2,024**	832	**4,169**	860
Net assets		**28,337**	61,980	**28,310**	62,024
EQUITY					
Contributed equity	18	**79,694**	79,932	**79,694**	79,932
Reserves	19(a)	**3,584**	387	**3,899**	387
Accumulated losses	19(b)	**(54,941)**	(18,339)	**(55,283)**	(18,295)
Total equity		**28,337**	61,980	**28,310**	62,024

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

	Notes	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Total equity / (deficiency in capital) at the beginning of the financial year		**61,980**	(17,103)	**62,024**	(17,131)
Loss for the year		**(36,602)**	(405)	**(36,988)**	(333)
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	18	**(238)**	79,263	**(238)**	79,263
Employee shares and share options	19	**3,512**	225	**3,512**	225
Foreign currency translation	19	**(315)**	-	**-**	-
		2,959	79,488	**3,274**	79,488
Total equity at the end of the financial year		**28,337**	61,980	**28,310**	62,024

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

		Consolidated		Parent	
	Notes	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Cash flows from operating activities					
Payments to suppliers and employees (inclusive of goods and services tax)		**(15,822)**	(2,004)	**(12,669)**	(1,878)
Interest received		**1,550**	248	**1,550**	248
Income tax R&D receipt	8	**125**	348	**125**	348
Payment for financial instrument		**-**	(1,127)	**-**	(1,127)
Net cash outflow from operating activities	26	**(14,147)**	(2,535)	**(10,994)**	(2,409)
Cash flows from investing activities					
Payments in relation to purchase of subsidiary		**-**	(220)	**-**	(220)
Payments for property, plant and equipment		**(68)**	(18)	**(28)**	(18)
Payments for intellectual property		**-**	(274)	**-**	-
Payments for shares issued in subsidiary	14	**-**	-	**(3,252)**	(400)
Proceeds (payments) for held-to-maturity investments		**10,846**	(10,491)	**10,846**	(10,491)
Net cash inflow / (outflow) from investing activities		**10,778**	(11,003)	**7,566**	(11,129)
Cash flows from financing activities					
Proceeds from issues of shares			51,726	**-**	51,726
Payments made in relation to IPO		**(31)**	(3,699)	**(31)**	(3,699)
Proceeds from borrowings		**-**	1,225	**-**	1,224
Net cash inflow / (outflow) from financing activities		**(31)**	49,252	**(31)**	49,251
Net (decrease) / increase in cash and cash equivalents		**(3,400)**	35,713	**(3,459)**	35,713
Cash and cash equivalents at the beginning of the financial year		**35,690**	249	**35,690**	249
Effects of exchange rate changes on cash and cash equivalents		**(2,618)**	(272)	**(2,648)**	(272)
Cash and cash equivalents at end of year	9	**29,672**	35,690	**29,583**	35,690

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

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 report includes separate financial statements for QRxPharma Limited as an individual entity and 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.

(b) Going concern

The Group has experienced significant recurring operating losses and negative cash flows from operating activities since its inception. During the year ended 30 June 2007, the Group completed an Initial Public Offering (IPO) raising $50 million (before transaction costs of $3.7 million) in conjunction with the admission of the Company on the Australian Securities Exchange (ASX). At 30 June 2008, the Group holds cash and cash equivalents of $29.7 million.

The directors have considered the significance and possible effects of these circumstances in order to determine the suitability of adopting the going concern basis for the preparation of this financial report.

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

(c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of QRxPharma Limited ("company" or "parent entity") as at 30 June 2008 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.

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.

1 Summary of significant accounting policies (continued)

(d) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(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 income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised as a separate component of equity.

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 shareholders' equity. 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 income statement as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(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.

1 Summary of significant accounting policies (continued)

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 purchase 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. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

(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

Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

(k) Cash and cash equivalents

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

(l) Investments and other financial assets

Classification
The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments. 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).

1 Summary of significant accounting policies (continued)

(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.

Recognition and derecognition
Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. 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.

Subsequent measurement
Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Fair value
The fair values of option agreements are based on current market prices.

(m) Property, plant and equipment

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)).

(n) Intangible assets

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

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

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

(ii) Research and development
Research expenditure on internal development projects is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 5 years.

(o) Trade and other payables

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

(p) Borrowings

Non-redeemable preference shares are classified as liabilities. The accrued liabilities on preference shares are recognised in the income statement as interest expense.

1 Summary of significant accounting policies (continued)

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Convertible notes and accrued interest are recognised as a liability. The liability is included in borrowings until the conversion or maturity of the notes.

(q) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include interest paid or payable on convertible notes.

(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. The Group's legal or constructive obligation is limited to these contributions.

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

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

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

(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.

1 Summary of significant accounting policies (continued)

(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) Fair value estimation

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

(w) Goods and Services Tax (GST)

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

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

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

(x) 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.

(y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group’s assessment of the impact of these new standards and interpretations is set out below.

1 Summary of significant accounting policies (continued)

AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8*
AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group will adopt AASB 8 for the reporting period commencing on 1 July 2009. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

AASB-I 13 *Customer Loyalty Programmes*
AASB-I 13 is applicable to annual reporting periods commencing on or after 1 July 2008. It provides guidance on the accounting for customer loyalty programmes and requires that the fair value of the consideration received/receivable in respect of a sale transaction is allocated between the award credits and the other components of the sale. The Group does not operate any customer loyalty programmes. AASB-I 13 will therefore have no impact on the Group's financial statements.

Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101*
The revised AASB 101 that was issued in September 2007 is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity but will not affect any of the amounts recognised in the financial statements.

AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations*
AASB 2008-1 was issued in February 2008 and will become applicable for annual reporting periods beginning on or after 1 January 2009. The revised standard clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply the revised standard from 1 July 2009, but it is not expected to affect the accounting for the Group's share-based payments.

AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation [*AASB 7, AASB 101, AASB 132, AASB 139 and Interpretation 2*]*
The amendments made by AASB 2008-2 in March 2008 relate to puttable financial instruments and instruments that require the entity to pay the holder a pro-rata share of the entity's net assets on liquidation. The revised standards have to be applied from 1 January 2009. Under the revised rules, the relevant instruments will be classified as equity if certain conditions are satisfied. As the Group has not issued any such instruments, the amendments will not have any effect on the Group's or the parent entity's financial statements.

Revised AASB 3 *Business Combinations,* AASB 127 *Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*
Revised accounting standards for business combinations and consolidated financial statements were issued in March 2008 and are operative for annual reporting periods beginning on or after 1 July 2009, but may applied earlier. The Group will apply the revised standards for the reporting period commencing 1 July 2009. However, the new rules generally apply only prospectively to transactions that occur after the application date of the standard. Their impact will therefore depend on whether the Group will enter into any business combinations or other transactions that affect the level of ownership held in the controlled entities in the year of initial application. For example, under the new rules:

- all payments (including contingent consideration) to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments subsequently remeasured at fair value through income
- all transaction cost will be expensed
- the Group will need to decide whether to continue calculating goodwill based only on the parent's share of net assets or whether to recognise goodwill also in relation to the non-controlling (minority) interest and
- when control is lost, any continuing ownership interest in the entity will be remeasured to fair value and a gain or loss recognised in profit or loss.

Amendments to IFRS 1 and IAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
In May 2008, the IASB made amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards and* IAS 27 *Consolidated and Separate Financial Statements.* The new rules will apply to financial reporting periods commending on or after 1 January 2009. Amendments to the corresponding Australian Accounting Standards are expected to be issued shortly. The Group will apply the revised rules prospectively from 1 July 2009.

1 Summary of significant accounting policies (continued)

Improvements to the IFRSs
In May 2009, the IASB issued a number of improvements to existing International Financial Reporting Standards. The amendments will generally apply to financial reporting periods commending on or after 1 January 2009, except for some changes to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* regarding the sale of the controlling interest in a subsidiary which will apply form 1 July 2009. We expect the AASB to make the same changes to Australian Accounting Standards shortly. The Group will apply the revised standards from 1 July 2009. 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 and the parent entity hold the following financial instruments:

	Consolidated		**Parent**	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Financial assets				
Cash and cash equivalents	**29,672**	35,690	**29,583**	35,690
Trade and other receivables	**158**	136	**135**	136
Financial assets at fair value through profit or loss	**-**	922	**-**	922
Held-to-maturity investments	**-**	10,491	**-**	10,491
Other financial assets	**458**	118	**119**	-
	30,288	47,357	**29,837**	47,239
Financial liabilities				
Trade and other payables	**2,024**	678	**4,169**	706
Other financial liabilities	**-**	154	**-**	154
	2,024	832	**4,169**	860

(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.

Derivative financial instruments of a net carrying value of $768,214 at 30 June, 2007 have been recognised at a fair value of $nil at 30 June 2008.

During the financial year ended 30 June 2007, the Group had entered into a series of foreign exchange put option contracts at an exchange rate between Australian dollars and US dollars of AUD$1.00 to US$0.8181 to protect against adverse foreign exchange movements between AUD and USD. The hedge was to cover anticipated expenditure of at least $29 million over 2 years to fulfil research and development expenditure associated with clinical trials to be conducted in the United States of America (US). The Prospectus issued by the Company on 27 April, 2007 assumed an exchange rate between Australian dollars and US dollars of AUD$1.00 to US$0.78. During the year the Group converted AUD$20 million to USD at an average rate of US$0.9027, taking advantage of the more favourable rates above the hedge cover.

2 Financial risk management (continued)

In addition, at 30 June 2007 the Group held a series of smart forward exchange contracts which had a fair value as a liability at that date of $154,024.

These put options contracts cover existing purchase contracts and highly probable forecasted purchases over the ensuing two financial years and mature as follows:

Buy US dollars	**Sell Australian dollars**		**Average exchange rate**	
	2008	2007	**2008**	2007
	$'000	$'000		
Maturity				
6 – 12 months	15,300	13,200	0.8180	0.8180
1 - 2 years	-	15,300	0.8180	0.8180
	15,300	28,500		

Amounts disclosed above represent currency sold measured at the contracted rate.

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

	30 June 2008 USD $'000	30 June 2007 USD $'000
Cash at bank	**333**	364
Term deposits	**21,022**	6,669
Trade payables	**116**	-

The carrying amounts of the parent entity's financial assets and liabilities are denominated in Australian dollars except as set out below:

	30 June 2008 USD $'000	30 June 2007 USD $'000
Cash at bank	**333**	364
Term deposits	**21,022**	6,669
Trade payables	**3,891**	-

Group sensitivity
Based on the financial instruments held at 30 June 2008, had the Australian dollar weakened / strengthened by 10% against the US dollar with all other variables held constant, the Group's post-tax loss for the year would have been $2.5 million lower / $2.0 million higher (2007 – $921,000 higher / $753,000 lower), mainly as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table. Profit is more sensitive to movements in the Australian dollar/US dollar exchange rates in 2008 than 2007 because of the increased amount of US dollar denominated cash and cash equivalents. The Group's exposure to other foreign exchange movements is not material.

Parent entity sensitivity

The parent entity's post-tax loss for the year would have been $5.7 million lower / $1.7 million higher (2007 - $798,000 lower / $653,000 higher) had the Australian dollar weakened/strengthened by 10% against the US dollar, mainly as a result of foreign exchange gains/losses on the translation of US dollar denominated derivatives held for trading.

(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 fair value 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 2008 was $nil (2007 - $nil), thus limiting the Group's exposure to any cash flow risk in relation to liabilities. During the financial year ended 30 June 2007 prior to completion by the Company of its initial public offering, the Group converted all outstanding convertible notes, preference shares and warrants to ordinary shares. The preference shares and convertible notes were subject to fixed interest rate risk of 10% per annum.

Group sensitivity
As at 30 June 2008, if interest rates had changed by -/+ 125 basis points from the year-end rates with all other variables held constant, the post-tax loss for the year would have been $70,100 higher / lower (2007 – change of 125 bps: $22,400 higher / lower), mainly as a result of lower/higher interest income from cash and cash equivalents.

Parent entity sensitivity
The parent entity's main interest rate risk arises from the holding of cash equivalents. As at 30 June 2008, if interest rates had changed by -/+ 125 basis points from the year-end rates with all other variables held constant, the post-tax loss would have been $70,100 higher / lower (2007 – change of 125 bps: $22,400 higher / lower) as a result of lower / higher interest income from these financial assets.

(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 2008, 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 2008. Due to negative cash flow position the Group has not committed to any credit facilities rather relied upon equity and debt financing through private and public equity investors. On 24 May 2007 and prior to completion by the company of its initial public offering the Series A preference shares, convertible notes and warrants have been converted to ordinary shares at a 1.85 conversion rate in accordance with the terms of the IPO deed dated 27 April 2007.

The Group and parent 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 2008, the Group and parent entities had no overdue liabilities. The Group is continuously monitoring its' level of expenditure against the Prospectus as funds are expended in accordance with its' drug development expenditure program. The value of trade creditors at 30 June 2008 for the Group was $1.6 million (2007: $400,000) which is payable within 3 months of the year end and at 30 June 2008, the entity carried cash and cash equivalents of $29.7 million (2007: $37.5 million).

The value of trade creditors at 30 June 2008 for the parent was $158,000 (2007: $400,000) which is payable within 3 months of the year end and at 30 June 2008, the parent entity carried cash and cash equivalents of $29.6 million (2007: $37.5 million).

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 estimation

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques.
The carrying value of trade payables are assumed to approximate their fair values due to their short-term nature.

2 Financial risk management (continued)

Summarised sensitivity analysis

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

		Foreign exchange risk				Interest rate risk			
	Carrying	-10%		+10%		-125bps		+125bps	
30 June 2008	amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial assets									
Cash and cash equivalents	29,672	2,465	-	(2,017)	-	(70)	-	70	-
Financial liabilities									
Trade payables	1,611	(13)	-	11	-	-	-	-	-
Total increase/ decrease		2,452	-	(2,006)	-	(70)	-	70	-

		Foreign exchange risk				Interest rate risk			
	Carrying	-10%		+10%		-125bps		+125bps	
30 June 2007	amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial assets									
Cash and cash equivalents	7,033	934	-	(764)	-	(22)	-	22	-
Financial liabilities									
Trade payables	400	(13)	-	11	-	-	-	-	-
Total increase/ decrease		921	-	(753)	-	(22)	-	22	-

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.

Fair value of financial assets and liabilities
The Group has entered into a number of Australian dollar (AUD) put option agreements and smart forward exchange contracts to purchase US dollar (USD) to manage its exposure to foreign exchange movements. The directors have assessed and measured the derivative instruments at their fair value at year end.

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.

By agreement dated 26 April 2007, between CNS Co. Inc (a company then controlled by Dr John Holaday), QRxPharma Limited, QRxPharma Inc and Dr John Holaday, CNS Co. Inc merged with QRxPharma, Inc. Upon the merger CNS Co. Inc ceased to exist and QRxPharma Inc became the surviving entity. Under the terms of the merger agreement QRxPharma Inc acquired 100% of the equity of CNS Co. Inc with the purchase consideration payable to Dr John Holaday being equivalent to 10% of the post-IPO ordinary capital of QRxPharma Limited. As detailed in note 18 (h) this purchase consideration was satisfied through the issue of 7,500,000 ordinary shares in QRxPharma Limited at the time of the Company's initial public offering ("IPO") on 25 May 2007.

Intellectual property of $15.5 million acquired through this merger relates to an exclusive worldwide license from the University of Alabama (“UOA”) of certain technology relating to the treatment of central nervous system (CNS) disorders and other related diseases (“Torsin IP”). The Torsin IP programme is run through the Caldwell Labs at the UOA and is directed at re-engineering existing drug therapies for new clinical applications, which include the treatment of dystonia, Parkinson’s disease and other neurological disorders which are a part of the Central Nervous System (“CNS”) market. Under the terms of this agreement the Group will use its commercially reasonable best efforts to bring a product or process using the Torsin IP to market through a commercially reasonable development programme to meet certain milestones. The first milestone is the filing of an investigational new drug application for a product within three years. The commercial commitments are more fully described in note 22.

At 30 June 2008 this Torsin IP had a carrying value of $14.6 million. Accounting Standard AASB 136 “Impairment of Assets” requires the assessment of the Torsin IP for impairment on an annual basis. The ability of an intangible asset such as the Torsin IP to generate sufficient future economic benefits to recover its carrying amount is usually subject to greater uncertainty before the asset is capable of generating cash flows.

Whilst the Company has supported the enhancement of the Torsin IP to date, the Board’s decision to focus on the Company’s pain relief assets implies that, in its current development stage the Torsin IP could not generate cash flow other than from the out licence or sale of the asset. As no contracts have at 30 June 2008 been negotiated for either the out licence or sale of the Torsin IP, the Company has fully impaired the carrying value of the asset at 30 June 2008 being $14.6 million pursuant to the requirements of AASB 136.

It should be noted in fully impairing the carrying value of this asset at 30 June 2008 does not mean the abandonment of the programme with the UOA as it is believed that the asset still has long term value and remains part of the Company’s preclinical and clinical pipeline of pharmaceuticals.

Black- Scholes option pricing model

During the year, the Group booked $3.3 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

The Group's operations during the year were predominantly in Australia. The Group operates in only one market segment, that of the research and development of biopharmaceutical products for commercial sale.

5 Revenue

	Consolidated		Parent	
	2008 **$'000**	2007 $'000	**2008** **$'000**	2007 $'000
From continuing operations				
Interest	**2,009**	304	**2,009**	304

6 Other income

	Consolidated		Parent	
	2008 **$'000**	2007 $'000	**2008** **$'000**	2007 $'000
Management fees	**-**	-	**515**	-
Gain on conversion of financial instruments	**-**	4,951	**-**	4,951
	-	4,951	**515**	4,951

On 24 May 2007 the Series B convertible notes and Series A preferred shares were converted into ordinary shares (refer note 18 (e).

7 Expenses

	Consolidated		Parent	
	2008 **$'000**	2007 $'000	**2008** **$'000**	2007 $'000
Loss before income tax includes the following specific expenses:				
Depreciation and Amortisation				
Plant and equipment	**20**	11	**16**	11
Amortisation of intangible assets	**802**	72	**-**	-
	822	83	**16**	11
Net foreign exchange loss	**2,618**	272	**2,648**	272
Finance costs				
Interest payable on convertible notes	**-**	371	**-**	371
Interest payable on preference shares	**-**	1,126	**-**	1,126
	-	1,497	**-**	1,497
Fair value losses on derivative financial instrument	**-**	359	**-**	359
Employee benefit expense				
Employee benefit expense	**2,907**	457	**1,136**	457
Defined contribution superannuation expense	**38**	8	**38**	8
Share option expense	**2,353**	225	**1,664**	225
	5,298	690	**2,838**	690
Research and development				
Research and development expensed	**12,708**	2,376	**13,970**	2,376
Impairment of intangible asset	**14,628**	-	**-**	-
	27,336	2,376	**13,970**	2,376
Impairment losses – financial assets				
Investment in subsidiary	-	-	**17,117**	-
Rental expenses relating to operating leases				
Minimum lease payments	73	-	**27**	-

8 Income tax benefit

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
(a) Income tax benefit				
Current tax	-	-	-	-
Deferred tax expense	**(125)**	(348)	**(125)**	(348)
	(125)	(348)	**(125)**	(348)

The deferred tax asset relates to a Research and Development tax rebate payment received during the year under Section 73 B of the Income Tax Assessment Act 1936.

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Loss from continuing operations before income tax expense	**(36,727)**	(753)	**(37,113)**	(681)
Tax at the Australian tax rate of 30% (2007 – 30%)	**(11,018)**	(226)	**(11,134)**	(205)
Tax effect of amounts which are not deductible in calculating taxable income:				
Amortisation of intangibles	**241**	21	**-**	-
Impairment of intangible asset	**4,388**	-	**-**	-
Impairment of financial asset	**-**	-	**5,135**	-
Research & development expenditure	**-**	574	**-**	574
Share-based payments	**779**	67	**779**	67
Interest on preference shares	**-**	(1,103)	**-**	(1,103)
	(5,610)	(667)	**(5,220)**	(667)
Previously unrecognised losses recouped	**(125)**	(348)	**(125)**	(348)
Benefit of tax losses not recognised	**5,610**	667	**5,220**	667
Income tax expense	**(125)**	(348)	**(125)**	(348)
(c) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	**30,142**	11,442	**28,841**	11,442
Potential tax benefit @ 30%	**9,043**	3,433	**8,652**	3,433

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.

8 Income tax benefit (continued)

(d) 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

	Consolidated		Parent	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Cash at bank	**654**	2,339	**565**	2,339
Term deposits	**21,839**	6,669	**21,839**	6,669
Commercial bills	**7,179**	26,682	**7,179**	26,682
	29,672	35,690	**29,583**	35,690

(a) Cash at bank

These bear an interest rate of 7.3% (2007: 5.98%) for the AUD accounts and 1.0% (2007: 3%) for the USD accounts.

(b) Term deposits

These are USD deposits and bear an average fixed interest rate of 2.3% (2007: 5.1%). These deposits have a maturity of less than 3 months.

(c) Commercial bills

These commercial bills are bearing an average interest rate of 7.40% (2007: 6.30%) and have a maturity of less then 3 months.

Bank accepted commercial bills and term deposits with a maturity greater than 3 months have been classified as held-to-maturity investments (refer note 12).

10 Current assets - Trade and other receivables

	Consolidated		Parent	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Interest receivable	**105**	57	**105**	57
Other receivables	**53**	79	**30**	79
	158	136	**135**	136

Information about the Group's and the parent's exposure to 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.

11 Other financial assets and liabilities at fair value through profit or loss

	Consolidated		Parent	
	2008 **$'000**	2007 $'000	**2008** **$'000**	2007 $'000
Current assets				
Derivative financial instrument	**-**	374	**-**	374
Total current assets	**-**	374	**-**	374
Non-current assets				
Derivative financial instrument	**-**	548	**-**	548
Total non-current assets	**-**	548	**-**	548
Total assets	**-**	922	**-**	922
Current liabilities				
Derivative financial instrument	**-**	154	**-**	154
Total liabilities	**-**	154	**-**	154

Instruments used by the Group

Derivative financial instruments of a net carrying value of $768,214 at 30 June, 2007 have been fair valued to $nil at 30 June 2008.

During the financial year ended 30 June 2007, the Group had entered into a series of foreign exchange put option contracts at an exchange rate between Australian dollars and US dollars of AUD 1.00 to USD 0.8181 to protect against adverse foreign exchange movements between AUD and USD. The options contracts were to cover anticipated expenditure of at least $29 million over 2 years to fulfil research and development expenditure associated with clinical trials to be conducted in the United States of America. The Prospectus issued by the Company on 27 April, 2007 assumed an exchange rate between Australian dollars and US dollars of AUD 1.00 to USD 0.78. During the year the Group converted AUD 20 million to USD at an average rate of US$0.9027, taking advantage of the more favourable rates above the option contracts.

In addition, at 30 June 2007 the Group held a series of smart forward exchange contracts which were fair valued as a liability at that date at $154,024.

These put options contracts are covering existing purchase contracts and highly probable forecasted purchases over the ensuing two financial years and mature as follows:

Buy US dollars	**Sell Australian dollars**		**Average exchange rate**	
	2008 **$'000**	2007 $'000	**2008**	2007
Maturity				
6 - 12 months	**15,300**	13,200	**0.8180**	0.8180
1 - 2 years	-	15,300	**0.8180**	0.8180
	15,300	28,500		

Amounts disclosed above represent currency sold measured at the contracted rate.

12 Current assets - Held-to-maturity investments

	Consolidated		Parent	
	2008 **$'000**	2007 $'000	**2008** **$'000**	2007 $'000
Commercial bill	**-**	9,691	**-**	9,691
Security deposit	**-**	800	**-**	800
	-	10,491	**-**	10,491

The bank accepted commercial bill of $9.7 million, bearing an interest rate of 6.47% was due to mature on 19 December 2007, but was matured early on 14 November 2007. The proceeds were converted into US dollars and reinvested in term deposits having maturities of less than 3 months from original investment date. The security deposit of $0.8 million bearing a fixed interest rate of 6.2% matured on 18 May 2008. The proceeds were reinvested in commercial bills having a maturity of less than 3 months from the original investment date. Accordingly these amounts have been reclassified and disclosed as cash and cash equivalents in accordance with AASB 107 "Cash Flow Statements"

13 Current assets - Other current assets

	Consolidated		Parent	
	2008 **$'000**	2007 $'000	**2008** **$'000**	2007 $'000
Prepayments	**458**	118	**119**	-

14 Non-current assets - Other financial assets

	Consolidated		Parent	
	2008 **$'000**	2007 $'000	**2008** **$'000**	2007 $'000
Investment in subsidiaries (note 25)	**-**	-	**19,722**	16,121
Less provision for write down to recoverable amount	**-**	-	**(17,117)**	(501)
	-	-	**2,605**	15,620

These financial assets are carried at cost.

Due to the impairment loss on the Torsin IP asset recognised in the books of the subsidiary, a provision for diminution in value against the investment in the books of the parent entity has been recognised. Refer to note 3.

15 Non-current assets - Property, plant and equipment

	Consolidated	Parent
	Plant & Equipment	**Plant & Equipment**
	$	**$**
At 1 July 2006		
Cost	109	109
Accumulated depreciation	(91)	(91)
Net book amount	18	18
Year ended 30 June 2007		
Opening net book amount	18	18
Additions	18	18
Depreciation charge	(11)	(11)
Closing net book amount	25	25
At 30 June 2007		
Cost	127	127
Accumulated depreciation	(102)	(102)
Net book amount	25	25
Year ended 30 June 2008		
Opening net book amount	25	25
Additions	68	28
Depreciation charge	(20)	(16)
Closing net book amount	73	37
At 30 June 2008		
Cost	195	155
Accumulated depreciation	(122)	(118)
Net book amount	73	37

16 Non-current assets - Intangible assets

Consolidated	Patents, trademarks and other rights $'000	Other intangible assets $'000	Total $'000
Year ended 30 June 2007			
Opening net book amount	-	-	-
Acquisition of intellectual property	15,502	-	15,502
Amortisation charge	(72)	-	(72)
Closing net book amount	15,430	-	15,430
At 30 June 2007			
Cost	15,502	889	16,391
Accumulated amortisation and impairment	(72)	(889)	(961)
Net book amount	15,430	-	15,430

Consolidated	Patents, trademarks and other rights $'000	Other intangible assets $'000	Total $'000
Year ended 30 June 2008			
Opening net book amount	15,430	-	15,430
Impairment of intellectual property*	(14,628)	-	(14,629)
Amortisation charge	(802)	-	(801)
Closing net book amount	-	-	-
At 30 June 2008			
Cost	15,502	889	15,502
Accumulated amortisation and impairment	(15,502)	(889)	(15,502)
Net book amount	-	-	-

*The carrying amount of the Torsin IP asset has been reduced to its recoverable amount of $nil through recognition of an impairment loss against the asset. This loss has been disclosed as a separate line item in the income statement. Refer to note 3.

16 Non-current assets - Intangible assets (continued)

Parent	**Patents, trademarks and other rights $'000**	**Other intangible assets $,000**	**Total $,000**
At 1 July 2006			
Cost	-	414	414
Accumulated amortisation and impairment	-	(414)	(414)
Net book amount	-	-	-
Year ended 30 June 2007			
Opening net book amount	-	-	-
Closing net book amount	-	-	-
At 30 June 2007			
Cost	-	414	414
Accumulated amortisation and impairment	-	(414)	(414)
Net book amount	-	-	-
Year ended 30 June 2008			
Opening net book amount	-	-	-
Closing net book amount	-	-	-
At 30 June 2008			
Cost	-	414	414
Accumulated amortisation and impairment	-	(414)	(414)
Net book amount	-	-	-

17 Current liabilities - Trade and other payables

	Consolidated		**Parent**	
	2008 $'00	2007 $'000	**2008 $'000**	2007 $'000
Trade payables	**1,611**	400	**158**	400
Amounts due to subsidiaries	**-**	-	**3,802**	28
Accrued employee benefits	**92**	272	**32**	272
Other payables	**321**	6	**177**	6
	2,024	678	**4,169**	706

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.

18 Contributed equity

	Parent entity		Parent entity	
	2008	2007	**2008**	2007
	Shares	Shares	**$'000**	$,000
(a) Share capital				
Ordinary shares - fully paid	**75,000,000**	75,000,000	**79,694**	79,933

(b) Movements in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price	$,000
1 July 2006	Opening balance		7,588,721		670
11 August 2006	Exercise of options	(d)	9,120	$0.15	1
12 March 2007	Exercise of options	(d)	60,000	$0.15	9
19 April 2007	Exercise of options	(d)	654,192	$0.15	98
25 April 2007	Exercise of options	(d)	80,000	$0.15	12
25 April 2007	Exercise of options - net	(d)	653,640		-
25 April 2007	Issue of shares	(d)	509,325		-
24 May 2007	Conversion of Preferred Shares Series A	(e)	18,960,911	$0.54	9,898
24 May 2007	Conversion of Convertible Note Series A	(e)	5,674,837	$0.54	3,068
24 May 2007	Conversion of Convertible Note Series B	(e)	5,550,000	$0.27	1,500
24 May 2007	Conversion of Convertible Note Series B Warrants	(e)	5,550,000	$0.27	1,500
24 May 2007	Issue of shares in settlement of IP deed	(f)	1,912,500	$1.00	1,913
25 May 2007	Compression of shares prior to IPO	(g)	(4,703,246)		-
25 May 2007	Share issue to acquire subsidiary	(h)	7,500,000	$2.00	15,000
25 May 2007	Share issue from IPO	(i)	25,000,000	$2.00	50,000
	Less: Transaction costs arising on IPO				(3,699)
	Less: Transaction costs arising on other capital raising				(38)
30 June 2007	Balance		75,000,000		79,932
	Less: Transaction costs arising on share issues				(238)
30 June 2008	Balance		75,000,000		79,694

Transaction costs arising on share issues incurred during the year ended 30 June 2008 represent the share based payments charge for options issued to JPMorgan at the time of the Initial Public Offering (IPO). Refer note 28(b).

(c) Ordinary shares

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

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

18 Contributed equity (continued)

(d) Options

Information relating to the QRxPharma Limited Employee Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in note 28.

On 25 April 2007 cashless options were exercised resulting in the issue of 653,640 shares.

Certain options carried anti-dilution provisions which resulted in an uplift of 509,325 options which were exercised at the same time.

These shares were issued to directors and key management personnel of the Group during the year ended 30 June 2007.

(e) Conversion of Series A preference shares, convertible notes and warrants

On 24 May 2007 and prior to completion by the company of its IPO the Series A preference shares, convertible notes and warrants were converted to ordinary shares at a 1.85 conversion rate in accordance with the terms of the IPO deed dated 27 April 2007.

(f) Issue of shares in settlement of IP deed

On 24 May 2007 the Company issued 1,912,500 ordinary shares to Uniquest Pty Limited at $1.00 per share to compensate Uniquest Pty Limited for early settlement of an intellectual property subscription deed.

(g) Share consolidation

On 25 May 2007 and also prior to the IPO, the company completed a consolidation of ordinary shares which reduced the number of shares on a issue by factor per share of 0.90036.

(h) Share issue to acquire subsidiary

The Group acquired 100% of the equity of CNS Co, Inc. on 26 April 2007 for consideration equivalent to 10% of the post-IPO ordinary capital of the Company.

(i) Share issue from IPO

On 25 May 2007 the company listed on the Australian Securities Exchange (ASX) following the completion of a fully underwritten IPO with a subscription of 25,000,000 ordinary shares at an issue price of $2.00 per share.

(j) Voluntary Escrows

Certain directors, consultants and pre IPO investors have voluntarily escrowed their shareholdings in the Company. Collectively these escrows extend to 34,229,407 ordinary shares through to 25 May 2009. At 25 May 2008, voluntary escrows on 10,075,929 ordinary shares expired.

(k) 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.

In order to maintain or adjust the capital structure, the Group may, return capital to shareholders; issue new shares or sell assets.

19 Reserves and accumulated losses

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
(a) Reserves				
Share-based payments reserve	**3,899**	387	**3,899**	387
Foreign currency translation reserve	**(315)**	-	**-**	-
	3,584	387	**3,899**	387
Movements:				
Share-based payments reserve				
Balance 1 July	**387**	162	**387**	162
Option expense	**3,512**	149	**2,691**	149
Options issued to employees of subsidiaries	**-**	-	**821**	-
Options issued under anti-dilution provisions	**-**	76	**-**	76
Balance 30 June	**3,899**	387	**3,899**	387
Foreign currency translation reserve				
Balance 1 July	-	-	**-**	-
Currency translation differences arising during the year	**(315)**	-	**-**	-
Balance 30 June	**(315)**	-	**-**	-

(b) Accumulated losses

Movements in accumulated losses were as follows:

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Opening accumulated losses	**(18,339)**	(17,934)	**(18,295)**	(17,962)
Loss for the year	**(36,602)**	(405)	**(36,988)**	(333)
Balance 30 June	**(54,941)**	(18,339)	**(55,283)**	(18,295)

(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
- in the parent entity – the fair value of shares and options issued to employees of subsidiaries

(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 is recognised in profit and loss when the net investment is disposed.

20 Key management personnel disclosures

(a) Directors

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

(i) Chairman - non-executive
Peter C Farrell

(ii) Executive directors
John W Holaday, Managing Director and Chief Executive Officer

(iii) Non-executive directors
Michael A Quinn
R Peter Campbell
Gary W Pace, Consultant

(b) Other key management personnel

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

Name	*Position*	
Douglas A Saltel	Chief Operating Officer	(resigned 7 March 2008)
Warren C Stern	Executive Vice President, Drug Development	
Chris J Campbell	Chief Financial Officer and Company Secretary	
Joseph J Berry	Vice President Operations	(appointed 12 November 2007)
Philip J Magistro	Vice President Commercial Operations	(appointed 26 November 2007)
Patricia T Richards	Senior Vice President, Clinical Research	(appointed 18 February 2008)

All of the above persons were also key management persons during the year ended 30 June 2007, except for Patricia Richards, Philip Magistro and Joseph Berry.

(c) Key management personnel compensation

	Consolidated		**Parent**	
	2008	2007	**2008**	2007
	$'000	$'000	**$**	$
Short-term employee benefits	**2,194**	446	**287**	446
Post-employment benefits	**27**	8	**27**	8
Long-term benefits	**-**	-	**-**	-
Share-based payments	**1,650**	171	**228**	171
	3,871	625	**542**	625

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.

20 Key management personnel disclosures (continued)

(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 note 28.

(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.

2008 Name	Balance at start of the year	Granted as compensation	Exercised	Forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of QRxPharma Limited							
Peter C Farrell	604,089	-	-	-	604,089	201,363	402,927
John W Holaday	805,452	-	-	-	805,452	268,484	536,968
Gary W Pace	402,726	-	-	-	402,726	134,242	268,484
Michael A Quinn	402,726	-	-	-	402,726	134,242	268,484
R Peter Campbell	241,635	-	-	-	241,635	80,545	161,090
Other key management personnel of the Group							
Warren C Stern	805,452	-	-	-	805,452	268,484	536,968
Douglas A Saltel (resigned 7 March 2008)	805,452	-	-	805,452	-	-	-
Chris J Campbell	402,726	-	-	-	402,726	134,242	268,484
Patricia T Richards (appointed 18 February 2008)	-	500,000	-	-	500,000	-	500,000
Philip J Magistro (appointed 26 November 2007)	-	200,000	-	-	200,000	-	200,000
Joseph J Berry (appointed 12 November 2007)	-	150,000	-	-	150,000	-	150,000

2007 Name	Balance at start of the year	Granted as compensation	Exercised	Cashless options exercise	Balance at end of the year	Vested and exercisable	Unvested
Directors of QRxPharma Limited							
Peter C Farrell	-	604,089	-	-	604,089	-	604,089
John W Holaday	-	805,452	-	-	805,452	-	805,452
Gary W Pace	207,096	402,726	(207,096)	-	402,726	-	402,726
Michael A Quinn	-	402,726	-	-	402,726	-	402,726
R Peter Campbell	-	241,635	-	-	241,635	-	241,635
David Stack (resigned 27 April 2007)	447,096	-	(447,096)	-	-	-	-
Other key management personnel of the Group							
Warren C Stern	-	805,452	-	-	805,452	-	805,452
Douglas A Saltel	-	805,452	-	-	805,452	-	805,452
Chris J Campbell	-	402,726	-	-	402,726	-	402,726
Felix de la Iglesia (resigned 25 May 2007)	-	50,000	-	-	50,000	-	50,000
B Nicholas Harvey (resigned 1 March 2007)	131,788	-	-	(131,788)	-	-	-

The additional shares issued to the directors on 25 April 2007 under the anti-dilution provision (note 18(d)) were:

Name	Shares issued
Directors of QRxPharma Limited	
Gary W Pace	71,689
David Stack	154,768
Other key management personnel of the Group	
Felix de la Iglesia	88,996
B Nicholas Harvey	45,620

20 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.

2008 Name	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
Directors of QRxPharma Limited				
Ordinary shares				
Peter C Farrell	1,145,540	-	115,000	1,260,540
John W Holaday	7,505,000	-	38,000	7,543,000
Gary W Pace	3,190,083	-	40,000	3,230,083
Michael A Quinn	10,593,090	-	(1,121,341)	9,471,749
R Peter Campbell	50,000	-	35,000	85,000
Other key management personnel of the Group				
Ordinary shares				
Warren C Stern	-	-	-	-
Douglas A Saltel (resigned 7 March 2008)	-	-	-	-
Chris J Campbell	-	-	-	-
Patricia T Richards (appointed 18 February 2008)	-	-	-	-
Philip J Magistro (appointed 26 November 2007)	-	-	-	-
Joseph J Berry (appointed 12 November 2007)	-	-	-	-

2007 Name	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
Directors of QRxPharma Limited				
Ordinary shares				
Peter C Farrell (appointed 27 April 2007)	-	-	1,145,540	1,145,540
John W Holaday (appointed 27 April 2007)	-	-	7,505,000	7,505,000
Gary W Pace	1,573,511	207,096	1,409,476	3,190,083
Michael A Quinn	500,000	-	10,093,090	10,593,090
R Peter Campbell (appointed 27 April 2007)	-	-	50,000	50,000
David Stack (resigned 27 April 2007)	-	447,096	94,799	541,895
Michael S Hirshorn (resigned 27 April 2007)	-	-	-	-
George Savage (resigned 27 April 2007)	-	-	-	-
David A Henderson (resigned 27 April 2007)	-	-	-	-
Other key management personnel of the Group				
Ordinary shares				
Warren C Stern	-	-	-	-
Douglas A Saltel	-	-	-	-
Chris J Campbell	-	-	-	-
Felix de la Iglesia (resigned 25 May 2007)	607,096	-	773,270	1,380,366
B Nicholas Harvey (resigned 1 March 2007)	175,000	131,788	(157,040)	149,748

(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 $151,049 (2007: $321,716). Prior to a number of consultants becoming key management personnel of the Group, they were paid $67,800 for consulting services.

During the year ended 30 June 2007, Innovation Capital Associates Pty Limited, of which Michael Quinn is a director and shareholder, provided administration and other services and facility support to the Company on normal commercial terms amounting to $97,930.

21 Remuneration of auditors

	Consolidated		Parent	
	2008	2007	**2008**	2007
(a) Audit services				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**86,000**	97,200	**86,000**	97,200
Total remuneration for audit services	**86,000**	97,200	**86,000**	97,200
(b) Non-audit services				
PricewaterhouseCoopers Australian firm				
Audit-related services	**-**	145,000	**-**	145,000
Taxation services	**99,270**	80,300	**99,270**	80,300
Total remuneration for audit-related services	**99,270**	225,300	**99,270**	225,300
	185,270	322,500	**185,270**	322,500

22 Contingencies

As detailed in note 18(h) the Group acquired on 26 April 2007 a 100% interest in CNS Co, Inc. As also detailed in note 16 the Group 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 expire date of the patents licensed under the agreement.

23 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.

(b) On 10 January 2008, the Company entered into a Collaborative Reserach Agreement with the University of Queensland for the conduct of the Australian Research Council linkage project grant; “Pre-clinical evaluation of snake venom proteins with therapeutic potential”. Under the terms of this grant, the Company is contracted to pay a total of $209,000 to the University over the next two years.

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

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$’000	$’000	**$’000**	$’000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**100**	-	**19**	-
Later than one year but not later than five years	**171**	-	**21**	-
Later than five years	**-**	-	**-**	-
	271	-	**40**	-

24 Related party transactions

(a) Subsidiaries

Interests in subsidiaries are set out in note 25.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 20.

(c) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent	
	2008	2007	**2008**	2007
Current payables				
Subsidiaries	**-**	-	**3,802,332**	27,700
Balances in relation to related parties	**-**	45,199	**-**	45,199

25 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**	
			2008	2007
			%	%
The Lynx Project Pty Limited	Australia	Ordinary	**100**	100
Haempatch Pty Limited	Australia	Ordinary /Preference	**100**	100
QRxPharma, Inc.	USA	Ordinary	**100**	100

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

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Loss for the year	**(36,602)**	(405)	**(36,988)**	(333)
Depreciation and amortisation	**822**	83	**16**	11
Impairment of intangible asset	**14,628**	-	**-**	-
Impairment of financial asset	**-**	-	**16,267**	-
Non-cash employee benefits expense - share-based payments	**3,257**	225	**3,305**	225
Net exchange differences on cash and cash equivalents	**2,353**	272	**2,648**	272
Interest on held to maturity investments	**(355)**	-	**(355)**	-
Change in operating assets and liabilities				
(Increase)/decrease in other receivables and prepayments	**511**	(254)	**804**	(135)
Increase/(decrease) in trade creditors and accruals	**1,239**	78	**3,309**	78
Increase/(decrease) in other operating liabilities	**-**	(2,534)	**-**	(2,527)
Net cash outflow from operating activities	**(14,147)**	(2,535)	**(10,994)**	(2,409)

27 Loss per share

	Consolidated	
	2008 **Cents**	2007 Cents
(a) Basic loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the company	**(48.8)**	(2.8)
(b) Diluted loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the company	**(48.8)**	(2.8)

(c) Reconciliations of earnings used in calculating earnings per share

	Consolidated	
	2008 **$'000**	2007 $'000
Basic loss per share Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**(36,602)**	(405)
Diluted loss per share Loss attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**(36,602)**	(405)

(d) Weighted average number of shares used as the denominator

	Consolidated	
	2008 **Number**	2007 Number
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	**75,000,000**	14,606,882
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share	**75,000,000**	14,606,882

(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.

(ii) Cumulative redeemable preference shares
The cumulative redeemable preference shares are not ordinary shares and have not been included in the determination of basic and diluted earnings per share. These shares are classified as liabilities (refer to note 18).

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 percent (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 waiver the latter provisions.

Options granted under the plan carry no dividend or voting rights. The vesting period for each option 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. When exercisable, each option is convertible into one ordinary share and entitles the holder to the same ordinary share rights as set out in note 18. Shares issued under the scheme may be sold at the expiration of any Restriction Agreement between the eligible employee and the Company. Such restrictions may be imposed by the remuneration committee upon the grant of options under the option plan and such restrictions will be contained in the Option Agreement between the eligible employee and the Company. In all other respects the shares rank equally with other fully paid ordinary shares on issue (refer to note 18(c)).

(b) 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. These options vested on 25 November 2007 and have a three year term through to 25 May 2010, with the option exercise price being $2.20.

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	Forfeitted during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
Consolidated and parent - 2008								
31 March 2007	31 March 2014	$1.42	402,726	-	-	-	402,726	134,242
14 April 2007	14 April 2014	$1.00	2,819,082	-	-	(805,452)	2,013,630	671,210
25 May 2007	25 May 2014	$2.00	1,448,450	-	-	-	1,448,450	482,817
25 May 2007	25 May 2014	$1.00	552,726	-	-	-	552,726	184,242
25 May 2007	25 May 2010	$2.20	322,181	-	-	-	322,181	322,181
1 September 2007	1 September 2014	$1.70	-	50,000	-	-	50,000	-
1 October 2007	1 October 2014	$1.45	-	75,000	-	-	75,000	-
9 October 2007	9 October 2014	$1.34	-	50,000	-	-	50,000	-
1 January 2008	1 January 2015	$1.11	-	350,000	-	-	350,000	-
1 April 2008	1 April 2015	$1.05	-	600,000	-	-	600,000	-
1 April 2008	1 April 2015	$1.04	-	75,000	-	-	75,000	-
Total			5,545,165	1,200,000	-	(805,452)	5,939,713	1,794,694
Weighted average exercise price			$1.36	$1.13	-	$1.00	$1.36	$1.42

28 Share-based payments (continued)

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

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Cashless options exercised during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
Consolidated and parent - 2007								
19 December 2002	19 December 2012	$0.30	40,000	-	-	(40,000)	-	-
19 February 2003	19 February 2008	$0.15	40,000	-	(40,000)	-	-	-
1 December 2003	1 December 2006	$0.15	20,000	-	(20,000)	-	-	-
24 February 2004	24 February 2013	$0.15	10,000	-	(9,124)	(876)	-	-
24 February 2004	24 February 2014	$0.30	10,000	-	-	(10,000)	-	-
24 February 2004	24 February 2014	$0.15	6,875	-	-	(6,875)	-	-
25 February 2004	24 February 2014	$0.15	5,000	-	-	(5,000)	-	-
16 March 2004	16 March 2014	$0.15	10,000	-	(10,000)	-	-	-
19 May 2004	19 May 2014	$0.15	25,000	-	(25,000)	-	-	-
24 June 2004	24 June 2014	$0.15	20,000	-	-	(20,000)	-	-
13 July 2004	13 July 2014	$0.15	50,000	-	(50,000)	-	-	-
14 July 2004	14 July 2014	$0.15	40,000	-	-	(40,000)	-	-
17 August 2004	17 August 2014	$0.15	20,000	-	-	(20,000)	-	-
19 October 2004	19 October 2014	$0.15	784,248	-	(364,192)	(420,056)	-	-
19 February 2005	19 February 2015	$0.15	150,000	-	-	(150,000)	-	-
18 May 2005	18 May 2015	$0.15	240,000	-	(240,000)	-	-	-
21 September 2005	21 September 2015	$0.15	110,000	-	(45,000)	(65,000)	-	-
31 March 2007	31 March 2014	$1.42	-	402,726	-	-	402,726	-
14 April 2007	14 April 2014	$1.00	-	2,819,082	-	-	2,819,082	-
25 May 2007	25 May 2014	$2.00	-	1,448,450	-	-	1,448,450	-
25 May 2007	25 May 2014	$1.00	-	552,726	-	-	552,726	-
25 May 2007	25 May 2010	$2.20	-	322,181	-	-	322,181	-
Total			1,581,123	5,545,165	(803,316	(777,807)	5,545,165	-
Weighted average exercise price			$0.15	$1.36	$0.15	$0.15	$1.36	$-

The net shares issued upon exercising of cashless options was 653,640 (refer note 18).

During the year ended 30 June 2007, 509,325 shares were also issued as certain options carried anti-dilution provisions (refer to note 18(b)).

No options expired during the periods covered by the above tables.

The weighted average remaining contractual life of share options outstanding at the end of the period was 5.8 years (2007 – 7.0 years).

28 Share-based payments (continued)

Fair value of options granted
The assessed fair value at grant date of options granted during the year ended 30 June 2008 was $0.69 per option (2007: $1.46). 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 2008 included:

(a) exercise price: $1.04 to $1.70 (2007 - $1.00 to $2.20)

(b) grant date: 1 September 2007, I October 2007, 9 October 2007, 1 January 2008 and 1 April 2008 (2007 – 31 March 2007, 14 April 2007, 25 May 2007)

(c) expiry date: 1 September 2014, 1 October 2014, 9 October 2014, 1 January 2015 and 1 April 2015 (2007 - 31 March 2014, 14 April 2014, 25 May 2010, 25 May 2014)

(d) share price at grant date: $1.04 to $1.70 (2007 - $2.00)

(e) expected price volatility of the company's shares: 60% (2007 - 60%)

(f) expected dividend yield: nil% (2007 - nil%)

(g) risk-free interest rate: 6.25% (2007 – 6.25%).

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:

	Consolidated		**Parent**	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Options issued under employee option plan	**3,327**	149	**2,506**	149
Options issued under anti-dilution provisions	**-**	76	**-**	76
	3,327	225	**2,506**	225

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.