



QRxPharma Limited

ABN 16 102 254 151

ASX Preliminary final report – 30 June 2016

Lodged with the ASX under Listing Rule 4.3A

This Preliminary final report should be read in conjunction with the 30 June 2016 Annual Report signed on 17 August 2016 together with ASX announcements issued after this date.

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Additional Appendix 4E disclosure requirements can be found in the directors' report and the 30 June 2016 financial statements and accompanying notes.

Appendix 4E Preliminary Final Report

Appendix 4E Preliminary Final Report

QRxPharma Limited
ABN 16 102 254 151

1. Reporting Period

Report for the financial year ended 30 June 2016.
Previous corresponding period is the financial year ended 30 June 2015.

2. Results for announcement to the market

				SA'000
Revenue from ordinary activities (<i>item 2.1</i>)	Up	78%	To	16
Net loss from ordinary activities after tax attributable to members (<i>item 2.2</i>)	Down	67%	To	(1,764)
Net loss for the period attributable to members (<i>item 2.3</i>)	Down	67%	To	(1,764)
Brief explanation of any of the figures reported above necessary to enable the figures to be understood (<i>item 2.6</i>)				
Revenue				
The revenue from ordinary activities represents interest earned on cash and cash equivalents.				
Net loss from ordinary activities				
The net loss for the year from ordinary activities was \$1.8 million (2015: net loss \$5.4 million) and includes the following key items:				
<ul style="list-style-type: none"> • Research and development expenditure of \$0.1 million (2015: \$1.8 million) which was primarily incurred in patent and trademark maintenance (2015: \$0.2 million). The 2015 financial year also included \$0.4 million for the finalisation of clinical and regulatory activities associated with immediate release Moxduo®, and spend of \$1.0 million on product and manufacturing process development inclusive of costs associated with the closing of all development programmes. • Employee benefits expense of \$0.4 million (2015: \$2.4 million), which comprises salaries and wages expense of \$0.3 million (2015: \$1.9 million), termination benefits of \$0.1 million (2015: \$1.5 million). The 2015 financial year also included a net write back of non-cash share based payments expense of \$(1.0) million. The decrease in salaries and wages is attributable to the Group's decision in the 2015 financial year to significantly reduce headcount. • Restructuring expense of \$0.8 million (2015: \$0.5 million) associated with the placement of the Company into Voluntary Administration on 22 May 2015. • General and administrative expense of \$0.7 million (2015: \$1.3 million). The decrease in expenditure is attributable to the Group's decision in the 2015 financial year to wind down activities inclusive of the closure of the US operations. 				
Cash Position				
As at 30 June 2016, the Group holds cash and cash equivalents of \$1.2 million (2015: \$3.4 million). The board continues to closely monitor company activities minimising all expenditures.				

Dividends (*items 2.4 – 2.5*)

It is not proposed to pay a dividend.

Appendix 4E Preliminary Final Report

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

	30 June 2016	30 June 2015
Net tangible assets per ordinary share	\$0.006	\$0.017

9. The Group did not acquire or lose control over any entities during the period. (2015: none)
10. The Group had no associates or joint venture entities.
11. **Commentary on the results** (*item 12 & 14*)

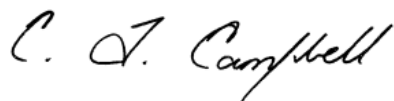
The major focus for the Group during the 2016 financial year was cost minimisation with the Company under Voluntary Administration during the first half of the financial year and post the effectuation of a Deed of Company Arrangement on 23 December 2015 the board has continued to explore strategic alternatives for the Group and its assets.

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

This report has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements issued by the Australian Accounting Standards Board and the Corporations Act 2001. QRxPharma Limited is a for-profit entity for the purpose of preparing the financial statements.

This preliminary financial report is based on financial statements and notes which have been audited and are not subject to any qualifications or disputes. The attached financial statements have been prepared on a going concern basis. This matter has been considered by the Group's auditors Deloitte Touche Tohmatsu and the financial statements are subject to an Emphasis of Matter as noted in the Independent auditors' report to the members of QRxPharma Limited on pages 51 to 52 of the 2016 Annual Report.

The Board currently constitutes the audit committee.



Chris J Campbell
Company Secretary
QRxPharma Limited
17 August 2016

QRxPharma Limited

ABN 16 102 254 151

Annual report for the year ended 30 June 2016

QRxPharma Limited ABN 16 102 254 151
Annual report - 30 June 2016

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Corporate directory

Directors	Richard S Treagus BScMed, MBChB, MPharmMed, MBA Bruce A Hancox BCom
Secretary	Chris J Campbell CA
Principal registered office in Australia	QRxPharma Limited Level 11, Suite 1 100 Walker St North Sydney NSW 2060
Share register	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000
Auditor	Deloitte Touche Tohmatsu Eclipse Tower 60 Station street Parramatta NSW 2150
Bankers	Westpac Banking Corporation Level 9 Keycorp Tower 799 Pacific Highway Chatswood NSW 2067 Silicon Valley Bank 3003 Tasman, Santa Clara California 95054 U.S.A.
Stock exchange listings	QRxPharma Limited shares are listed on the Australian Securities Exchange. Listing Code: QRX QRxPharma Limited American Depositary Receipts are listed on the OTC Pink Current. Symbol: QRXPY
Website address	www.qrxpharma.com

Letter from the Board

Dear Shareholder,

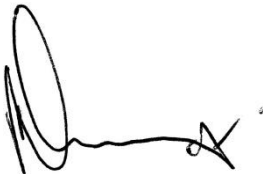
The key events throughout this year have been as follows:

- 30 November 2015 – the creditors of the Company voted in favour of a Deed of Company Arrangement (DOCA) which was executed on 8 December 2015.
- 23 December 2015 – the DOCA was wholly effectuated on 23 December 2015 returning the management and control of the Company to the Board.
- 19 May 2016 - the Company held its 2015 Annual General Meeting and Dr Richard S Treagus was re-elected as a director of the Company.

The Directors are presently addressing compliance matters with a view to enabling the reinstatement of the Company's securities to official quotation on the ASX in the near future.

We thank you for your patience and we look forward further updating shareholders during 2016.

Sincerely,



Dr Richard S Treagus
Non-Executive Director



Mr Bruce A Hancox
Non-Executive Director

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of QRxPharma Limited (referred to hereafter as the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2016.

Directors

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

Richard S Treagus
Bruce A Hancox

Principal activities

The principal activities of the Group has been the development and commercialisation of biopharmaceutical products based on largely Australian research, targeting global markets with the initial efforts being focused on the US and European markets.

On 22 May 2015, the Board of Directors (Board) formed a view that the Company's circumstances rendered its ongoing solvency unlikely and that the best possible interests of shareholders may be achieved by placing the Company into Voluntary Administration. Timothy Heesh and Amanda Lott were appointed as Joint and Several Administrators (Administrators) to the Company. A Deed of Company Arrangement (DOCA) was wholly effectuated on 23 December 2015, thereby returning the management and control of the Company to the Board. The initial focus of the Company post effectuation has been to address compliance matters with a view to enabling the reinstatement of the Company's securities to official quotation on the Australian Securities Exchange (ASX), which requires an ongoing business plan. With the previously announced discontinuation of development work on the original opioid product pipeline the Board continues to review potential opportunities and consider additional strategies.

Results and Review of Operations

The net loss for the year from ordinary activities was \$1.8 million (2015: net loss \$5.4 million) and includes the following key items:

Operating expenditures were down by 68% to \$2.0 million (2015: \$6.3 million) and were inclusive of the following:

- Research and development expenditure of \$0.1 million (2015: \$1.8 million) which was primarily incurred in patent and trademark maintenance (2015: \$0.2 million). The 2015 financial year also included \$0.4 million for the finalisation of clinical and regulatory activities associated with immediate release Moxduo[®], and spend of \$1.0 million on product and manufacturing process development inclusive of costs associated with the closing of all development programmes.
- Employee benefits expense of \$0.4 million (2015: \$2.4 million), which comprises salaries and wages expense of \$0.3 million (2015: \$1.9million), termination benefits of \$0.1 million (2015: \$1.5 million). The 2015 financial year also included a net write back of non-cash share based payments expense of \$(1.0) million. The decrease in salaries and wages is attributable to the Group's decision in the 2015 financial year to significantly reduce headcount.
- Restructuring expense of \$0.8 million (2015: \$0.5 million) associated with the placement of the Company into Voluntary Administration.
- General and administrative expense of \$0.7 million (2015: \$1.3 million). The decrease in expenditure is attributable to the Group's decision in the 2015 financial year to wind down activities inclusive of the closure of the US operations.

Following the appointment of the Administrators on 22 May 2015, the First Meeting of creditors was held on 3 June 2015 with notice of the Second Meeting to be sent by 22 June 2015 being within the "convening period" from the date of appointment pursuant to sections 439A(1) and 439A(5) of the Corporations Act 2001 (Act). Due to the complexity of the financial affairs of the Company, the Administrators made two applications to the Federal Court to have the convening period extended. On 19 June 2015, her Honour Justice Jagot of the Federal Court ordered, inter alia, pursuant to Section 439A(6) of the Act that the convening period within which to hold the Second Meeting be extended to 31 August 2015. By further order made on 28 August 2015 and pursuant to Section 447A(1) of the Act, the convening period was further extended until 30 November 2015. The Administrators issued report dated 3 November 2015 together with a Notice of Meeting of the Second Meeting of Creditors to be held on 30 November 2015.

The meeting considered the Administrators' Report and voted in favour of the execution of a Deed of Company Arrangement (DOCA) which was proposed by a creditor of the Company, Cavwain Pty Limited (a corporate adviser to

the Company prior to the appointment of the Administrators). The DOCA was signed on 8 December 2015 and wholly effectuated on 23 December 2015, thereby returning the management and control of the Company to the Board.

Under the terms of the DOCA that had been effectuated and the terms of s.444D of the Act, and as confirmed in legal advice from Senior Counsel obtained by the Company, the Directors are of the opinion that the Company has no liability in respect of:

- (i) any claims made by shareholders that arose prior to 22 May 2015, as they are extinguished and barred; and
- (ii) any claims made by former directors against the Company seeking indemnity in respect of claims made by shareholders against them personally, as such claims are either excluded or limited to the extent of the Company's insurance coverage.

Specifically, during the term of Administration the Company was subject to a class action initiated in the United States against the Company and a former director by holders of certain American Depository Receipts (ADRs). The Company was granted (on 10 February 2016 in New York) permanent injunctive relief and the class action by holders of certain ADRs against the Company was dismissed.

Loss per share

	2016	2015
	Cents	Cents
(a) Basic loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	(1.1)	(3.3)
(b) Diluted loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	(1.1)	(3.3)

Dividends - QRxPharma Limited

No dividends were paid or declared since the start of the financial year (2015: \$nil).

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

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

Business strategies and future prospects

The major focus for the Group during the 2016 financial year was cost minimisation with the Company under Voluntary Administration during the first half of the financial year and post the effectuation of the DOCA the board continued to explore strategic alternatives for the Group and its assets.

As at 30 June 2016, the Group holds cash and cash equivalents of \$1.2 million (2015: \$3.4 million). As detailed in note 1 (b) of the Financial Report the financial statements have been prepared on the going concern basis. This matter has been considered by the Group's auditors Deloitte Touche Tohmatsu and the financial statements are subject to an Emphasis of Matter as noted in the Independent auditors' report to the members of QRxPharma Limited on pages 51 to 52 of this Annual Report.

Business Risks

The board continues to review all strategic alternatives for the Group and its assets, which will impact on the assessment of relevant specific risks that have the potential to affect the Group's achievement of any long term financial success.

Environmental regulation

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

Information on directors

Richard S Treagus BScMed, MBChB, MPharmMed, MBA *Non-Executive Director (joined the board 9 July 2014)*

Experience and expertise

Dr Treagus is a physician and entrepreneur, with over 20 years' experience in all aspects of the international pharmaceutical and biotechnology industry. He has a record of delivering strong commercial outcomes and has successfully established

pharmaceutical business partnerships across the US, Europe and Asia. Dr Treagus served as Chief Executive Officer of Acrux Limited until 2012. Under his leadership Acrux gained FDA approval for three drug products and concluded the largest product licensing deal in the history of the Australian biotech industry. Acrux is a leading Australian biotechnology company and has been profitable since 2010. He is currently the Executive Chairman of ASX-listed Neuren Pharmaceuticals Limited, Chairman of Biotech Capital Limited and a Non-executive Director of Hatchtech Pty Ltd. In 2010 Dr Treagus was awarded the Ernst and Young Entrepreneur-of-the-Year (Southern Region) in the Listed Company Category and in subsequent years has served on the judging panel.

Other current directorships

Dr Treagus is currently the Executive Chairman of Neuren Pharmaceuticals Limited (ASX: NEU) and the Chairman of Biotech Capital Limited (ASX: BTC).

Former directorships in last 3 years

Nil.

Special responsibilities

Nil.

Interests in shares and options

Dr Treagus does not hold any shares or options in the Group.

Bruce A Hancox BCom Non-Executive Director (joined the board 9 July 2014)

Experience and expertise

Mr Hancox has had a long and distinguished career in business in New Zealand and in Australia. He was for many years involved with Brierley Investments Limited as General Manager, Group Chief Executive and Chairman. He also served as a director of many Brierley subsidiaries in New Zealand, Australia and the United States. Since 2006, he has pursued various private investment interests and has been a director of, and a consultant to, a number of companies. He has acted as an advisor on a number of takeover situations.

Other current directorships

Director of Neuren Pharmaceuticals Limited (ASX: NEU)
 Director of Medical Australia Limited (ASX:MLA)
 Director of Biotech Capital Limited (ASX:BTC)

Former directorships in last 3 years

Nil.

Special responsibilities

Nil.

Interests in shares and options

Mr Hancox does not hold any shares or options in the Group.

Company Secretary

Chris J Campbell holds a Bachelor of Commerce and is an Associate of the Institute of Chartered Accountants in Australia. He also holds the position of Chief Financial Officer of QRxPharma Limited. He has over 30 years' experience with major accounting firms and as the Chief Financial Officer of publicly traded companies. Mr Campbell received notice of his termination on 19 May 2016 with his employment to cease on 19 August 2016.

Meetings of directors

The numbers of meetings of the Company's board and of each board committee held during the year ended 30 June 2016, and the numbers of meetings attended by each director were:

	Meetings of committees									
	Full meetings of directors		Meetings of non - executive directors		Audit and risk		Nominations		Remuneration	
	A	B	A	B	A	B	A	B	A	B
Bruce A Hancox	4	4	-	-	2	2	-	-	-	-
Richard S Treagus	4	4	-	-	2	2	-	-	-	-

A = Number of meetings attended.

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

Remuneration Report

The directors are pleased to present the Group's 2016 remuneration report which sets out remuneration information for QRxPharma Limited's non-executive directors, executive director and other key management personnel.

Directors and key management personnel disclosed in this report

The directors and other key management personnel of the Group during and since the end of the financial year were:

Name	Position
<i>Non-executive and executive directors</i>	
Richard S Treagus	Non-Executive Director
Bruce A Hancox	Non-Executive Director
<i>Other key management personnel</i>	
Chris J Campbell ¹	Chief Financial Officer

¹ Chris J Campbell received notice of his termination on 19 May 2016 with his employment to cease on 19 August 2016.

Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

Role of the remuneration committee

The remuneration committee is a committee of the board. It is primarily responsible for making recommendations to the board on:

- remuneration levels of executive directors and other key management personnel;
- the over-arching executive remuneration framework and operation of the incentive plan; and
- key performance indicators and performance hurdles for the executive team.

Their objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Group. In doing this, the remuneration committee may seek advice from independent remuneration consultants. No remuneration consultants were engaged during the current financial year.

The Corporate Governance Statement provides further information on the role of this committee.

Non-executive directors remuneration policy

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors.

During the 2016 financial year the non-executive director fees for Bruce A Hancox and Richard S Treagus have been \$6,000 each per month. These monthly fees have been paid in full up to 30 June 2016. From 1 July 2016 non-executive director fees have been reduced to \$3,000 each per month.

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

Retirement allowances for non-executive directors

There are no retirement allowances for non-executive directors, in line with guidance from the ASX Corporate Governance Council on non-executive directors' remuneration. Superannuation contributions required under the Australian superannuation guarantee legislation continue to be made where applicable.

Executive remuneration policy and framework

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

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

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

Remuneration report (continued)

Executive remuneration policy and framework (continued)

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

The executive pay and reward framework has three components:

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

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

Base pay and benefits

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

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

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

Executives receive other incidental benefits.

Superannuation

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

Short-term incentives

A variable cash incentive component is payable annually dependent upon achievement of performance targets. Individual performance targets are set by reference to components of the Group's business plan for which the individual executive is responsible. Maximum bonuses are available to 50% of base pay.

Each executive has a target short-term incentive opportunity depending on the accountabilities of the role and impact on the organisation. Each year, the remuneration committee considers the appropriate targets and key performance indicators (KPI's) for each executive. For the year ended 30 June 2016, no short-term incentives were set.

Long-term incentives

Long-term incentives are provided to certain executives through participation in the QRxPharma Limited Employee Share Option Plan, which was approved by shareholders at the extraordinary general meeting of members held on 24 April 2007.

The QRxPharma Limited Employee Share Option Plan is designed to provide long-term incentives for executives to deliver long-term shareholder value and as an additional mechanism to attract and retain high calibre executives. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. The vesting period for each option issued up to 31 December 2008 is 3 years, or as varied by the board, one-third vesting 12 months from the date of grant and the balance vesting equally each year over the remaining two year period. Options issued from 1 January 2009 generally vest over 3 years with the initial vesting on the first anniversary of the date of the grant and subsequent vestings in 8 equal tranches on the first day of each calendar quarter over the following 2 years. Most option grants generally have a seven year life, after which time, if they are not exercised, the options are forfeited. Options are granted under the plan for no consideration.

Voting and comments made at the Company's 2015 Annual General Meeting (AGM)

The remuneration report for the financial year ended 30 June 2015 was adopted by the members at the Company's AGM, with 82% of votes as recorded by a poll cast in favour of the adoption. S300A(1)(g) of the Corporations Act requires that where more than 25% of the votes were against the adoption at the last AGM, this report needs to disclose any actions taken in response to remarks about remuneration at the same meeting, or that no action was taken.

Remuneration report (continued)

Executive remuneration outcomes and Group performance

Given the Group's stage of development, financial metrics (such as revenue or profitability) are not necessarily an appropriate measure of executive performance with the primary focus having been on growth in shareholder value through achievement of development, regulatory and commercial milestones. The following table sets out the movements in shareholder wealth for the five years to 30 June 2016:

	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
Closing price 30 June	\$0.028 ⁽¹⁾	\$0.028 ⁽¹⁾	\$0.08	\$1.05	\$0.585
Share price high	\$0.028	\$0.09	\$1.23	\$1.32	\$1.92
Share price low	\$0.028	\$0.014	\$0.075	\$0.60	\$0.585

⁽¹⁾ On 22 May 2015 the shares of the Company were suspended from trading on the ASX.

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

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

2016

Name	Short-term employee benefits			Termination benefits	Post-employment benefits		Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Annual leave		Super-annuation	Retirement benefits	Long service leave	Options	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-executive directors</i>									
Richard S Treagus	72,000	-	-	-	-	-	-	-	72,000
Bruce A Hancox	72,000	-	-	-	-	-	-	-	72,000
Sub-total non-executive directors	144,000	-	-	-	-	-	-	-	144,000
<i>Other key management personnel (Group)</i>									
Chris J Campbell ^{1,2}	241,696	-	7,435	-	22,961	-	-	892	272,984
Total key management personnel compensation (Group)	385,696	-	7,435	-	22,961	-	-	892	416,984

¹ Pursuant to the terms of the Deed of Company Arrangement (DOCA) the Voluntary Administrator paid down long service leave entitlement of \$33,140 and annual leave entitlement of \$16,329 of Chris J Campbell. The above tables do not include these payments.

² Chris J Campbell received notice of his termination on 19 May 2016 with his employment to cease on 19 August 2016. The above tables do not include a severance on termination equivalent to 6 months' salary of \$120,848. This amount has been accrued in the 2016 financial year.

Remuneration report (continued)

Key management personnel and other executives of QRxPharma Limited and the Group were the same in 2015.

Name	Short-term employee benefits			Termination benefits	Post-employment benefits		Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus ⁴	Annual Leave paydown		Super-annuation	Retirement benefits	Long service leave	Options	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-executive directors</i>									
Richard S Treagus (from 9 July 2014)	70,500	-	-	-	-	-	-	-	70,500
Bruce A Hancox (from 9 July 2014)	70,500	-	-	-	-	-	-	-	70,500
Peter C Farrell (to 9 July 2014)	-	-	-	-	-	-	-	(13,590) ⁶	(13,590)
R Peter Campbell (to 11 July 2014)	-	-	-	-	-	-	-	(10,304) ⁶	(10,304)
Michael A Quinn (to 11 July 2014)	-	-	-	-	-	-	-	(10,304) ⁶	(10,304)
Gary W Pace (to 9 July 2014) ¹	-	-	-	-	-	-	-	(13,590) ⁶	(13,590)
Sub-total non-executive directors	141,000	-	-	-	-	-	-	(47,788)	93,212
<i>Other key management personnel (Group)</i>									
Edward M Rudnic (to 16 January 2015) ^{1,5}	278,748	92,686	23,230	576,564	-	-	-	(251,917) ⁶	719,311
Chris J Campbell ⁵	241,696	60,424	(1,859)	-	32,799	-	-	14,149	347,209
Beth A Burnside (to 16 January 2015) ^{2,5}	226,095	75,179	18,890	481,600	-	-	-	(66,386) ⁶	735,378
M. Janette Dixon (to 30 April 2015) ³	307,788	-	-	-	-	-	-	(81,362) ⁶	226,426
Total key management personnel compensation (Group)	1,195,327	228,289	40,261	1,058,164	32,799	-	-	(433,304)	2,121,536

¹ Edward M Rudnic received notice of his termination on 15 September 2014. He completed his service with the Company on 16 January 2015. He received a severance on termination equivalent to 12 months' salary of \$556,119 together with medical insurance of \$20,445.

² Beth A Burnside received notice of her termination on 15 September 2014. She completed her service with QRxPharma, Inc on 16 January 2015. She received a severance on termination equivalent to 12 months' salary of \$451,074 together with medical insurance of \$30,526.

³ Fee payments were made to M. Janette Dixon pursuant to consultancy agreements held with BioComm Pacific Limited. M. Janette Dixon received notice of her termination on 31 July 2014 and completed her contract with the Company on 30 April 2015.

⁴ Cash bonus represents a retention bonus that was paid to certain key management personnel on 31 December 2014.

⁵ The Group paid down excess annual leave entitlements in early July 2014. The above tables do not include payments of \$84,029 (Edward M Rudnic), \$43,133 (Chris J Campbell) and \$30,442 (Beth A Burnside).

⁶ This represent the net write-back of share based payments previously charged on unvested option grants that lapsed on the termination of services. Option grants had also been made to Edward M Rudnic and Beth A Burnside while they were engaged as consultants to QRxPharma Inc and which have also lapsed and the above tables do not include the net write-back of previous share based payment charges on unvested option grants of \$13,143 (Edward M Rudnic) and \$13,762 (Beth A Burnside).

Remuneration report (continued)

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

	Fixed - Cash salary and fees		At risk - Cash bonus	
	2016	2015	2016	2015
Directors of QRxPharma Limited				
Richard S Treagus (from 9 July 2014)	100%	100%	0%	0%
Bruce A Hancox (from 9 July 2014)	100%	100%	0%	0%
Peter C Farrell (to 9 July 2014)	N/A	-	N/A	-
R Peter Campbell (to 11 July 2014)	N/A	-	N/A	-
Michael A Quinn (to 11 July 2014)	N/A	-	N/A	-
Gary W Pace (to 9 July 2014)	N/A	-	N/A	-
John W Holaday (to 1 May 2014)	N/A	-	N/A	-
Other key management personnel				
Edward M Rudnic (to 16 January 2015)	N/A	75%	N/A	25%
Chris J Campbell	100%	80%	0%	20%
Beth A Burnside (to 16 January 2015)	N/A	75%	N/A	25%
M. Janette Dixon (to 30 April 2015)	N/A	100%	N/A	0%

Service agreements

Remuneration and other terms of employment for key management personnel were formalised in service agreements. Each of these agreements provides for the provision of performance-related cash bonuses, other benefits including certain medical insurance, and participation, when eligible, in the QRxPharma Limited Employee Share Option Plan. Other major provisions of the agreements relating to remuneration are set out below.

Chris J Campbell, *Chief Financial Officer*

- Term of agreement - ongoing, commencing 1 March 2007, and amended on 16 May 2014.
- Base salary, inclusive of superannuation, for the year ended 30 June 2016 of \$264,657, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on termination by the Company, other than for gross misconduct, equal to six months' salary (and any unused annual and long service leave).
- Contract can be terminated by either party with three months' notice. On 19 May 2016 notice was given by the Company with employment to cease on 19 August 2016.

Share-based compensation

Options

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

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

Options issued up to 31 December 2008 were generally granted for no consideration and generally vest annually over 3 years in equal proportions with the initial vesting on the first anniversary of the date of grant. Options issued from 1 January 2009 have also been issued for no consideration and generally vest over 3 years with the initial vesting on the first anniversary of the date of the grant and subsequent vestings in 8 equal tranches on the first day of each calendar quarter over the following 2 years. The exercise price is set by the remuneration committee but being not less than the market price of ordinary shares immediately prior to the grant date of the options.

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

Remuneration report (continued)

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

Grant date	Vested and exercisable	Expiry date	Exercise price	Value per option at grant date	% Vested
23 January 2012	Over 3 years	23 January 2019	\$1.50	\$1.12	100%
23 January 2012	Over 3 years	23 January 2016	\$2.15	\$0.80	100%
1 April 2012	Over 3 years	1 April 2019	\$1.72	\$1.29	100%
7 November 2012	Over 3 years	7 November 2019	\$1.00	\$0.50	100%
7 November 2012	Over 3 years	7 November 2016	\$1.03	\$0.38	100%
7 November 2012	Over 3 years	7 November 2019	\$0.72	\$0.53	100%
19 February 2013	Over 3 years	19 February 2020	\$0.94	\$0.70	100%
7 November 2013	On FDA approval of NDA for immediate release Moxduo	7 November 2017	\$0.91	\$0.33	0%
1 May 2014	Over 3 years	1 May 2021	\$0.15	\$0.06	0%

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

Details of options over ordinary shares in the Company provided as remuneration to each director of QRxPharma Limited and each of the key management personnel of the parent entity and the Group are set out below. When exercisable, each option is convertible into one ordinary share of QRxPharma Limited. Further information on the options is set out in note 25 to the financial statements. The plan rules contain a restriction on removing the "at risk" aspect of instruments granted to executives. Plan participants may not enter into any transaction designed to remove the "at risk" aspect of an instrument before it vests.

	Number of options granted during the year	Value of options at grant date*	Number of options vested during the year
Directors of QRxPharma Limited			
Richard S Treagus	-	-	-
Bruce A Hancox	-	-	-
Other key management personnel			
Chris J Campbell	-	-	33,333

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

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Lapsed options

The following table summarises the number of options that lapsed during the financial year, in relation to options granted to key management personnel as part of their remuneration:

	Financial year in which options were granted	Number of options lapsed during the current year
Other key management personnel		
Chris J Campbell	2012	200,000

Shares provided on exercise of remuneration options

There were no ordinary shares in the Company provided as a result of the exercise of remuneration options to each director of QRxPharma Limited and other key management personnel of the Group in the year to 30 June 2016.

Remuneration report (continued)

Details of remuneration: Bonuses and share-based compensation benefits

For each cash bonus and grant of options included in the tables on pages 8,9 and 11, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonus is payable in future years. The vesting period for each option issued up to 31 December 2008 is 3 years, or as varied by the board, one-third vesting 12 months from the date of grant and the balance vesting equally each year over the remaining two year period. Options issued from 1 January 2009 generally vest over 3 years with the initial vesting on the first anniversary of the date of the grant and subsequent vesting's in 8 equal tranches on the first day of each calendar quarter over the following 2 years. No options will vest if the conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

Name	Bonus		Share-based compensation benefits (options)			
	Paid %	Forfeited %	Year Granted	Vested %	Lapsed %	Financial years in which options may vest
Other key management personnel						
Chris J Campbell	0%	-	2014	0%	0%	*
			2013	100%	0%	-
			2012	100%	100%	-

*These options will fully vest on FDA approval of the NDA for immediate release Moxduo.

The following tables show the number of:

- (i) Options over ordinary shares in the Company
- (ii) Ordinary shares in the Company that were held during the financial year by key management personnel of the Group, including their close family members and entities related to them.

There were no shares granted during the reporting period as compensation.

- (i) *Option holdings*

The numbers of options over ordinary shares in the Company held during and since the end of 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.

2016	Balance at start of the year	Granted as compensation	Exercised	Net other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of QRxPharma Limited							
Richard S Treagus	-	-	-	-	-	-	-
Bruce A Hancox	-	-	-	-	-	-	-
Other key management personnel of the Group							
Chris J Campbell	800,000	-	-	(200,000) ¹	600,000 ²	200,000	400,000

¹ These options lapsed during the 2016 financial year.

² All unvested options lapse on termination date of 19 August 2016. The remainder of the unexercised vested options expire 90 days from the date of termination.

Remuneration report (continued)

(ii) *Share holdings*

The numbers of shares in the Company held during and since 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.

2016	Balance at the start of the year	Received during the year on the exercise of options	Net other changes during the year	Balance at the end of the year/ cessation of Directorship
Name				
Directors of QRxPharma Limited				
Ordinary shares				
Richard S Treagus	-	-	-	-
Bruce A Hancox	- ¹	-	-	-
Other key management personnel of the Group				
Ordinary shares				
Chris J Campbell	104,155	-	-	104,155

¹ The HSF1 Superannuation Fund holds 740,000 shares in the Company. Bruce A Hancox was a director of HSF1 Pty Ltd, which is the trustee of the HSF1 Superannuation Fund. Mr Hancox was also a member of the HSF1 Superannuation Fund. On 28 May 2015, Mr Hancox ceased to be a member of that superannuation fund and ceased to be a director of the trustee of that fund.

Shares under option

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

Date options granted	Expiry date	Issue price of shares	Number under option
24 August 2010	24 August 2017	\$0.95	50,000
1 January 2011	1 January 2018	\$1.40	20,000
7 November 2012	7 November 2016	\$1.03	200,000
7 November 2013	7 November 2017	\$0.91	400,000
			670,000

Shares issued on the exercise of options

No ordinary shares of QRxPharma Limited were issued during the year ended 30 June 2016 on the exercise of options granted under the QRxPharma Limited Employee Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Indemnification

The Company has entered into Deeds of Indemnity, Access and Insurance with each of the directors and executive officers of the Group against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and executive officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. Whilst these agreements stipulate that the Company will meet the amount of any such liabilities, including costs and expenses the DOCA limits any indemnification claims to amounts if and to the extent to which the Company is paid in relation to those claims pursuant to an insurance policy responding to such claims only. The Company is obligated to maintain Directors and Officers liability insurance contracts (D&O Policy) except where the insurance is not readily available as defined in the relevant Deed of Indemnity, Access and Insurance.

Insurance of officers

During the 2016 financial year the Company' had limited D&O cover being an Extended Reporting option which terminated on 31 May 2016. The directors have not included details of the nature of liabilities covered nor the amount of the premium paid in respect to D&O Policy (inclusive of the Extended Reporting Option), as such, disclosure is prohibited under the terms of the contracts. The Company has not yet secured a new D&O Policy.

Proceedings on behalf of the Company

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

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

Non-audit services

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

No non-audit services were provided by the auditor (Deloitte Touche Tohmatsu) during the year (2015: \$nil).

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 15.

Rounding of amounts

The Company is a company of the kind referred to in Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the *Corporations Act 2001*.

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



Bruce A Hancox
Director

Sydney
17 August 2016

The Board of Directors
QRxPharma Limited
Level 11, Suite 1
100 Walker Street
North Sydney NSW 2060

17 August 2016

Dear Board Members

QRxPharma Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of QRxPharma Limited.

As lead audit partner for the audit of the financial statements of QRxPharma Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Delaney

X Delaney
Partner
Chartered Accountants
Parramatta, 17 August 2016

Corporate governance statement

QRxPharma Limited (Company) and the board are committed to achieving and demonstrating the highest standards of corporate governance. The board guides and monitors the Group's activities on behalf of shareholders. In developing policies and setting standards, the board considers the Australian Securities Exchange (ASX) Corporate Governance Principles and Recommendations (3rd Edition). The Company and its controlled entities together are referred to as the Group in this statement.

During the 2015 financial year, the board was reduced to two non-executive directors and with no executive directors. With the decision during that financial year to discontinue the development of the Company's principal asset, the board considered it prudent not to pursue the appointment of any additional director(s) until it had explored all strategic alternatives for the Group and its assets. With the board placing the Company into Voluntary Administration on 22 May 2015 the management and control of the Company vested in Timothy Heesh and Amanda Lott as Joint and Several Administrators (Administrators) to the Company. This situation prevailed until a Deed of Company Arrangement was wholly effectuated on 23 December 2015, returning the management and control of the Company to the board. The Company has been suspended from quotation on the ASX since 22 May 2015.

During the 2015 financial year, the Group significantly reduced its headcount with only one senior executive role, being the Chief Financial Officer (CFO) / Company Secretary remaining at 30 June 2015 and this situation has continued through to 30 June 2016. As part of the headcount reduction, the office of Chief Executive Officer (CEO) has been vacant since 16 January 2015. The CFO received notice of his termination on 19 May 2016 with his employment to cease on 19 August 2016.

A description of the Group's main corporate governance practices is set out below. Given the above circumstances, the Group could not fully comply with all aspects of the ASX Corporate Governance Principles and Recommendations - 3rd Edition (Principles) through the 2016 financial year.

Principle 1: Lay solid foundations for management and oversight

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

1.1 Responsibilities of the Board

The responsibilities of the board include:

- facilitating accountability to the Group and its shareholders;
- ensuring timely reporting to shareholders;
- providing strategic guidance to management including contributing to the development of and approving the corporate strategy
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital raising or expenditure initiatives
- overseeing and monitoring:
 - organisational performance and the achievement of the Group's strategic goals and objectives
 - compliance with the Group's corporate governance policies and procedures
 - progress in relation to the Company's diversity objectives and compliance with its diversity policy
 - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors
- appointment, performance assessment and, if necessary, removal of the CEO
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team
- ensuring there are effective management processes in place and approving major corporate initiatives
- enhancing and protecting the reputation of the organisation
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders
- ensuring appropriate resources are available to senior management.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the CEO and senior executives. With a significant reduction in headcount, many of these delegations reverted to the board, particularly as the office of CEO has been vacant since 16 January 2015.

Subject to the Administrator being in place through to 23 December 2015 and the limitations of there being only two directors, the board operated in accordance with the broad principles set in the Board Charter a copy of which is available at www.qrxpharma.com/corporate-governance.

1.2 Director appointment and election

The Company conducts appropriate background checks before it appoints a person or puts forward to shareholders a new candidate for election as a director. The Company also provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director in the notice of meeting provided to shareholders. This includes information relevant to shareholders to be able to assess the director's skills and competencies, industry experience, time commitments and other relevant information in their consideration of that election.

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

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

1.3 Written Agreements with Directors and Senior Executives

Due to the circumstances that prevailed at the time of the initial election of Richard S Treagus and Bruce A Hancox, no formal letters of appointment were issued. It is anticipated that this will be addressed at the time of the appointment of at least one additional director.

Senior executives are required to sign employment agreements that set out the key terms of their employment.

1.4 Company Secretary

The Company Secretary supports the effective functioning of the board and its committees. The Company Secretary is accountable directly to the board, through the Chair, on all matters to do with the proper functioning of the board. The directors have direct access to the Company Secretary.

1.5 Diversity objectives and achievement

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly, the Company has a Diversity Policy a copy of which is available at www.qrxpharma.com/corporate-governance.

This policy outlines the establishment of the Company's diversity objectives in relation to gender, age, cultural background and ethnicity. It includes requirements for the board to establish measurable objectives for achieving diversity, and for the board to assess annually both the objectives, and the Company's progress in achieving them.

With the significant reduction in headcount the board set aside establishing and reviewing measurable objectives to achieve diversity. At 30 June 2016 there were no females on the board nor holding a senior executive role.

1.6 Board, committee and director performance

The performance of the board and board committees are reviewed periodically. Given the circumstances that prevailed during the 2016 financial year the board has not undertaken a self-assessment of its collective performance and its committees.

1.7 CEO and senior executive performance

The performance of the CEO and senior executives are reviewed annually. With the significant reduction in headcount the board set aside the review process. Only one senior executive role, being the CFO / Company Secretary remained at 30 June 2016. As part of the headcount reduction, the office of CEO has been vacant since 16 January 2015. The CFO received notice of his termination on 19 May 2016 with his employment to cease on 19 August 2016.

Principle 2: Structure the board to add value

2.1 Board committees

The board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the Nominations, Remuneration and, Audit and Risk committees. Details of the composition of each committee are included later in this report. Details of directors' qualifications and attendance at committee meetings are set out in the directors' report on pages 4 to 5.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. Where applicable, matters determined by committees are submitted to the full board as recommendations for board decisions.

2.1.1 Nominations committee

The members of the Nominations Committee are Richard S Treagus and Bruce A Hancox being independent, non-executive directors.

During the 2016 financial year, the committee's composition did not comply with the Principles in that it did not include at least three members but was suitably structured and qualified to fully discharge its responsibilities at the relevant stage of the Company's development.

Given the circumstances that prevailed during the year the Nomination Committee did not meet.

The main responsibilities of the committee are to:

- conduct an annual review of the membership of the board having regard to present and future needs of the Company and to make recommendations on board composition and appointments
- conduct an annual review of and conclude on the independence of each director
- propose candidates for board vacancies
- oversee the annual performance assessment program
- oversee board succession, including the succession of the Chair, and reviewing whether succession plans are in place to maintain an appropriately balanced mix of skills, experience and diversity on the board
- manage the processes in relation to meeting board diversity objectives
- assess the effectiveness of the induction process.

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

2.2 Board skills

The board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective
- the size of the board is conducive to effective discussion and efficient decision-making
- the board is giving careful consideration to the composition of the board and the optimum mix of skills and experience required for the Company at this stage.

The board assessed its capabilities against the above and considered that it collectively had the appropriate experience given the circumstances that prevailed during the 2016 financial year.

2.3 Board members

Details of the members of the board, their experience, expertise, qualifications, term of office, and their independent status are set out in the directors' report under the heading "Information on directors" on pages 4 to 5. At the end of the 2016 financial year and up to the date of signing of the directors' report there are only two non-executive directors.

The number of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2016, and the number of meetings attended by each director is disclosed on page 5 of the Annual Report.

2.4 Directors' independence

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

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

The board regularly assesses director independence having regard to the criteria outlined in the Principles. To enable this

process, the directors must provide all information that may be relevant to the assessment. During the 2016 financial year Richard S Treagus and Bruce A Hancox consider themselves to be independent.

2.5 Chairman and Chief Executive Officer (CEO)

The Chair is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the Group's senior executives. With the current board of two independent non-executive directors, the Company has yet to appoint a Chair of the board

The CEO is responsible for implementing Group strategies and policies. As part of the headcount reduction, the office of CEO has been vacant since 16 January 2015.

2.6 Director induction and professional development

All new directors participate in an informal induction programme that covers the operation of the board and its committees, and an overview of the Group's core programmes, key strategy, financial and relevant operational documents.

Principle 3: Act ethically and responsibly

3.1 Code of Conduct

The Company adopted a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity and to take into account legal obligations and reasonable expectations of the Company's stakeholders.

In summary, the Code requires that at all times all Company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Company policies.

A copy of the Code is available on the company's website at www.qrxpharma.com/corporate-governance.

Principle 4: Safeguard integrity in corporate reporting

4.1 Audit and Risk Committee

The members of the Audit and Risk Committee are Richard S Treagus and Bruce A Hancox, being independent, non-executive directors.

Details of directors' qualifications and attendance at audit committee meetings are set out in the directors' report on pages 4 to 5.

During the 2016 financial year, the committee's composition did not comply with the Principles in that it did not include at least three members but was suitably structured and qualified to fully discharge its responsibilities at the relevant stage of the Company's development.

The main responsibilities of the committee include:

- review, assess and approve the annual full and concise reports, the half-year financial report and all other financial information published by the Company or released to the market
- assist the board in reviewing the effectiveness of the organisation's internal control environment covering:
 - effectiveness and efficiency of operations
 - reliability of financial reporting
 - compliance with applicable laws and regulations
- oversee the effective operation of the risk management framework
- recommend to the board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance
- consider the independence and competence of the external auditor on an ongoing basis
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence
- review and monitor related party transactions and assess their propriety
- report to the board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the Audit and Risk Committee:

- receives regular reports from management and the external auditors
- meets with external auditors at least twice a year, or more frequently if necessary
- reviews the processes the CEO and CFO have in place to support their certifications to the board
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- meets separately with the external auditors at least twice a year without the presence of management
- provides the external auditors with a clear line of direct communication at any time to either the Chair of the Audit and Risk Committee or the Chair of the board.

The Audit and Risk Committee has authority, within the scope of its responsibilities, to seek any information it requires

from any employee or external party.

4.2 CEO and CFO Declarations for financial statements

Before the board approves the Company's financial statements for the half or full year, the CEO and CFO are required to provide a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

As the office of CEO has been vacant since 16 January 2015, the CFO alone provided these declarations to the board in respect of the financial statements for half-year ended 31 December 2015 and full year ended 30 June 2016.

4.3 External auditors

The Company and Audit and Risk Committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually. The current external auditors, Deloitte Touche Tohmatsu were appointed in November 2012. It is Deloitte Touche Tohmatsu's policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in the directors' report and in note 19 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit and Risk Committee.

The external auditor attends each annual general meeting (AGM) and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

Principles 5: Make timely and balanced disclosure

5.1 Continuous disclosure

The Company has a Continuous Disclosure Policy that focuses on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities.

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

All disclosures made to the ASX, and all information provided to analysts or the media during briefings are promptly posted on the Company's website. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market. A copy of the Continuous Disclosure Policy is available on the Company's website at www.qrxpharma.com/corporate-governance.

Principle 6: Respect the rights of security holders

6.1 Information on website

The Company provides information about itself and its governance on its website at www.qrxpharma.com.

6.2 Communication with investors

The Company has a Shareholder Communication Policy to promote communication with shareholders. The Company recognises that shareholders may not be aware of all company developments at all times, notwithstanding the release of information to the ASX in accordance the Company's continuous disclosure policy and the law. A copy of the Shareholder Communication Policy is available on the Company's website at www.qrxpharma.com/corporate-governance. ASX announcements are also posted on the OTCQX website (www.otcqx) in order to provide timely disclosure to US investors trading in the Company's Level Two ADRs (OTC Pink Current:QRXPY).

6.3 Participation at Annual General Meeting (AGM)

The board encourages full participation by shareholders at the AGM to ensure high level of director accountability to shareholders and to enhance shareholders' identification with the Group's strategy and goals. The AGM provides an opportunity for the board to communicate with shareholders through both the Chairman's and CEO address. Shareholders are given the opportunity, through the Chairman, to ask general questions of the board.

The AGM is generally held in November each year. The Notice of Meeting and related Explanatory Notes are distributed to shareholders in accordance with the requirements of the Corporations Act.

6.4 Electronic communication with the company and its share registry

The Company gives shareholders the option to receive communications from, and send communications to the Company and its share registry. All shareholders have the option to receive a copy of the Company's annual report electronically. In addition, the Company seeks to provide opportunities for shareholders to participate through electronic means. All Company announcements, details of Company meetings and financial reports for the last three years are available on the Company's website. Where possible, the Company arranges for advance notification of significant Group briefings and makes them widely accessible, including through the use of mass communication mechanisms as may be practical.

Principle 7: Recognise and manage risk

7.1 Audit and Risk Committee

The board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound system of risk management and internal control. Detailed work on this task is delegated to the Audit and Risk Committee and reviewed by the full board as detailed in the Risk Management Policy. A copy of the Risk Management Policy is available on the Company's website at www.qrxpharma.com/corporate-governance.

7.2 Risk assessment and management

The Audit and Risk Committee is responsible for ensuring there is an adequate framework in relation to risk management, compliance and internal control systems. In providing this oversight, the committee:

- reviews the framework and methodology for risk identification, the degree of risk the Company is willing to accept, the management of risk and the processes for auditing and evaluating the Company's risk management system
- reviews Group-wide objectives in the context of the abovementioned categories of corporate risk
- reviews and, where necessary, approves guidelines and policies governing the identification, assessment and management of the Company's exposure to risk
- reviews and approves the delegations of financial authorities and addresses any need to update these authorities on an annual basis, and
- reviews compliance with agreed policies.

The committee recommends any actions it deems appropriate to the board for its consideration.

Management is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system and has to report to the Audit and Risk Committee and the board on the effectiveness of:

- the risk management and internal control system during the year, and
- the Company's management of its material business risks.

7.3 Internal audit function

Given the size of the Company, there is no internal audit function. As detailed in section 7.2 detailed risk assessments are carried out in respect of a wide range of items, and where appropriate and possible, risk mitigation strategies are implemented to minimise the chance of the risks occurring, and to minimise any impact where a risk eventuates.

7.4 Sustainability risks and management

The Company monitors its exposure to risks, including economic, environmental and social sustainability risks. Material risks identified for the Company, including economic risk, are set out in the Directors' Report at page 4.

Principle 8: Remunerate fairly and responsibly

8.1 Remuneration Committee

The members of the Remuneration Committee are Richard S Treagus and Bruce A Hancox, being independent, non-executive directors. Given the circumstances that prevailed during the year the Remuneration Committee did not meet.

The Remuneration Committee assists the board to discharge its responsibilities to attract and retain senior executives and directors who will create value for shareholders. The Remuneration Committee advises the board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for senior executives and directors.

8.2 Non-executive and executive remuneration

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. Each role has a position description which is reviewed by the CEO (or the committee in the case of the CEO) and the relevant executive. Further information on directors' and executives' remuneration is set out in the Directors' Report under the heading "Remuneration Report".

Executive directors and senior management receive a mix of fixed pay, performance based remuneration and stock options.

Non-executive director remuneration consists of director fees and does not include any bonus payments. No stock options have been issued to the current board members. Non-executive directors do not receive termination/retirement benefits, whereas executive directors and senior management are entitled to termination payments in accordance with the terms of their contracts.

8.3 Prohibition on hedging of unvested/restricted entitlements

Participants in the Company's equity based remuneration plan (QRxPharma Limited Employee Share Option Plan) are not permitted to enter into any transactions that would limit the economic risk of issued Options. This prohibition is specifically addressed in the rules of the Share Option Plan (rather than in the Company's Securities Trading Policy). Pursuant to these rules an Option holder may not assign, transfer or encumber in any way issued Options. This does not prevent the exercise in accordance with the terms and conditions of this Share Option Plan of Options by the estate of a deceased Option holder. The Company has not issued any other unvested entitlements that could be subject to hedging.

QRxPharma Limited ABN 16 102 254 151
Annual report - 30 June 2016

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

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

QRxPharma Limited
Level 11, Suite 1, 100 Walker Street
North Sydney NSW 2060.

The financial statements were authorised for issue by the directors on 17 August 2016. The directors have the power to amend and reissue the financial statements.

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

QRxPharma Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Revenue from continuing operations	5	16	9
Other income	6	-	47
Research and development expense	7	(78)	(1,844)
Employee benefits expense	7	(380)	(2,411)
Depreciation and amortisation	7	(2)	(12)
Business development		-	(375)
Restructuring expense		(854)	(450)
General and Administration expense		(698)	(1,282)
Net foreign exchange (loss) / gain		232	926
Loss before income tax		<u>(1,764)</u>	<u>(5,392)</u>
Income tax benefit	8	-	-
Loss from continuing operations		<u>(1,764)</u>	<u>(5,392)</u>
Loss for the year		<u>(1,764)</u>	<u>(5,392)</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		9	132
Other comprehensive income for the year, net of tax		<u>9</u>	<u>132</u>
Total comprehensive (loss) for the year		<u>(1,755)</u>	<u>(5,260)</u>
Loss for the year is attributable to:			
Owners of QRxPharma Limited		(1,764)	(5,384)
Non-controlling interests		-	(8)
		<u>(1,764)</u>	<u>(5,392)</u>
Total comprehensive (loss) is attributable to:			
Owners of QRxPharma Limited		(1,755)	(5,252)
Non-controlling interests		-	(8)
		<u>(1,755)</u>	<u>(5,260)</u>
Earnings per share for loss attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic loss per share	23	(1.1)	(3.3)
Diluted loss per share	23	(1.1)	(3.3)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

QRxPharma Limited
Consolidated statement of financial position
As at 30 June 2016

	Notes	2016 \$'000	2015 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	9	1,194	3,383
Trade and other receivables	10	78	45
Other current assets	11	<u>2</u>	<u>125</u>
Total current assets		<u>1,274</u>	<u>3,553</u>
Non-current assets			
Plant and equipment	12	1	3
Intangible assets	13	-	-
Total non-current assets		<u>1</u>	<u>3</u>
Total assets		<u>1,275</u>	<u>3,556</u>
LIABILITIES			
Current liabilities			
Trade and other payables	14	102	554
Provisions	15	133	190
Other current liabilities		-	-
Total current liabilities		<u>235</u>	<u>744</u>
Non-current liabilities			
Provisions	15	-	-
Total non-current liabilities		<u>-</u>	<u>-</u>
Total liabilities		<u>235</u>	<u>744</u>
Net assets		<u>1,040</u>	<u>2,812</u>
EQUITY			
Contributed equity	16	155,342	155,342
Reserves	17(a)	13,627	13,635
Accumulated losses	17(b)	<u>(167,864)</u>	<u>(166,100)</u>
Capital and reserves attributable to owners of QRxPharma Limited		1,105	2,877
Non-controlling interests	18	<u>(65)</u>	<u>(65)</u>
Total equity		<u>1,040</u>	<u>2,812</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

QRxPharma Limited
Consolidated statement of changes in equity
For the year ended 30 June 2016

	Attributable to the owners of QRxPharma Limited							
	Contributed Equity \$'000	Share- based Payments Reserve \$'000	Foreign Currency Translation Reserve \$'000	Transactions with Non- Controlling Interest Reserve \$'000	Accumulated Losses \$'000	Total \$'000	Non- controlling Interests \$'000	Total Equity \$'000
Balance at 30 June 2014	155,342	13,782	263	456	(160,716)	9,127	(57)	9,070
Loss for the year	-	-	-	-	(5,384)	(5,384)	(8)	(5,392)
Other comprehensive income	-	-	132	-	-	132	-	132
Total comprehensive loss for the year	-	-	132	-	(5,384)	(5,252)	(8)	(5,260)
Transactions with owners in their capacity as owners:								
Contributions of equity, net of transaction costs	-	-	-	-	-	-	-	-
Employee share scheme	-	(998)	-	-	-	(998)	-	(998)
	-	(998)	132	-	(5,384)	(6,250)	(8)	(6,258)
Balance at 30 June 2015	155,342	12,784	395	456	(166,100)	2,877	(65)	2,812
Loss for the year	-	-	-	-	(1,764)	(1,764)	-	(1,764)
Other comprehensive income	-	-	9	-	-	9	-	9
Total comprehensive loss for the year	-	-	9	-	(1,764)	(1,755)	-	(1,755)
Transactions with owners in their capacity as owners:								
Contributions of equity, net of transaction costs	-	-	-	-	-	-	-	-
Employee share scheme	-	(17)	-	-	-	(17)	-	(17)
	-	(17)	9	-	(1,764)	(1,772)	-	(1,772)
Balance at 30 June 2016	155,342	12,767	404	456	(167,864)	1,105	(65)	1,040

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

QRxPharma Limited
Consolidated statement of cash flows
For the year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Receipts from licensees of cost recoveries		-	109
Payments to suppliers and employees (inclusive of goods and services tax)		<u>(2,437)</u>	<u>(8,226)</u>
		(2,437)	(8,117)
Interest received	5	16	9
Research and development cash incentive received	6	<u>-</u>	<u>47</u>
Net cash (outflows) from operating activities	22	(2,421)	(8,061)
Cash flows from investing activities			
Payments for plant and equipment	12	<u>-</u>	<u>(7)</u>
Net cash (outflows) from investing activities		<u>-</u>	<u>(7)</u>
Cash flows from financing activities			
Proceeds from issue of shares	16	-	-
Payments made in relation to capital raising	16	<u>-</u>	<u>-</u>
Net cash inflows from financing activities		<u>-</u>	<u>-</u>
Net increase/ (decrease) in cash and cash equivalents		<u>(2,421)</u>	<u>(8,068)</u>
Cash and cash equivalents at the beginning of the financial year		3,383	10,525
Effects of exchange rate changes on cash and cash equivalents		<u>232</u>	<u>926</u>
Cash and cash equivalents at end of year	9	<u>1,194</u>	<u>3,383</u>

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

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1 Summary of significant accounting policies

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

a) Basis of preparation

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

(i) *New and amended standards adopted by the Group*

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2015 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(ii) *Compliance with IFRS*

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

(iii) *Historical cost convention*

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

(iv) *Critical accounting estimates*

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

(v) *Early adoption of standards*

The Group has elected not to apply any pronouncement before their operative date in the annual reporting period beginning 1 July 2015.

b) Going concern

The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

During the year ended 30 June 2016, the Group incurred a net loss of \$1.8 million (2015: \$5.4 million) and had net cash outflows from operating activities of \$2.4 million (2015: \$8.1 million). As at 30 June 2016, the Group holds cash and cash equivalents of \$1.2 million (2015: \$3.4 million).

The Company was under Voluntary Administration (Administration) from 22 May 2015 to 23 December 2015. During the period from 22 May 2015 until the date of signing this report, the Group had minimal operations and transactions, other than the costs incurred in restructuring the business. A Deed of Company Arrangement (DOCA) was executed on 8 December 2015 and wholly effectuated on 23 December 2015, thereby returning the management and control of the Company to the Board.

The going concern assessment has been made on the assumption that the Group will continue to settle its liabilities arising in the ordinary course of its existing business with minimal operations.

The Board will continue to review potential opportunities for the Group and consider additional strategies to be undertaken by the Group. In the event that the Group commences any due diligence activities associated with any of the opportunities identified, then the Group is likely to incur additional costs for which it is likely to seek funding. At the date of this report no such opportunities have been identified. The cash flow forecast prepared by the Company does not include the costs associated with any due diligence activities.

In the event the potential opportunities are identified and the Company is unable to obtain funding to pursue such opportunities, significant uncertainty would exist as to the ability of the Company and the Group to continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Company and the Group not continue as going concerns.

c) Principles of consolidation

(i) *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of QRxPharma Limited

("Company" or "parent entity") as at 30 June 2016 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) which are controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has all the following:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

(ii) Changes in ownership interests

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

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

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

d) Segment reporting

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

e) Foreign currency translations

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(iii) Group companies

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

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each profit and loss are translated at the exchange rate on the dates of the transactions, and
- all resulting exchange differences are recognised in other comprehensive income.

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

f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns and trade allowances. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on current available information, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Interest income

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

g) Income tax

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

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

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

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

Tax consolidation legislation

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

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

h) Business combinations

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

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

loss as a bargain purchase.

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

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

i) Impairment of assets

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

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

j) Grant income

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

k) Cash and cash equivalents

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

l) Investments and other financial assets

Classification

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

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

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (note 10).

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

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

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

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

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

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(i) Assets carried at amortised cost

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

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

(ii) Assets classified as available-for-sale

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

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

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

m) Plant and equipment

Plant and equipment are stated at historical costs less accumulated depreciation.

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

- Plant and equipment	4-5 years
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The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

n) Intangible assets

(i) Intellectual property

Costs incurred in acquiring intellectual property are capitalised 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.

o) Trade and other payables

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

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

p) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 20). Payments made under operating leases (net of any incentive received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

q) Employee benefits

(i) Wages and salaries

Liabilities for wages and salaries, including non-monetary benefits expected to be settled wholly 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) Annual leave and long service leave

The liability for long service leave and annual 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. The Group's legal or constructive obligation is limited to these contributions.

Contributions to complying third party superannuation funds 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 25.

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

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

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

(v) Bonus plans

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

obligation.

(vi) Employee benefit on-costs

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

(vii) Termination benefits

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

r) Contributed Equity

Ordinary shares are classified as equity.

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

s) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

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

t) Derivatives

Derivatives that do not qualify for hedge accounting

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

u) Goods and Services Tax (GST)

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

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

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

v) Rounding of amounts

The Company is a company of the kind referred to in Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

w) Parent entity financial information

The financial information for the parent entity, QRxPharma Limited, disclosed in note 24 has been prepared on the same basis as the consolidated financial statements, except as set out below.

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

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

(ii) Tax consolidation legislation

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

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

a stand-alone taxpayer in its own right.

(iii) Share-based payments

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

x) New accounting standards and interpretations

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period, resulting in no changes to accounting policy changes and no changes to recognition and measurement.

Various other Standards and Interpretations were on issue but were not yet effective at the date of authorisation of the financial report. The issue of these Standards and Interpretations does not affect the Group's present policies and operations. The Directors anticipate that the adoption of these Standards and Interpretations in future periods will not materially affect the amounts recognised in the financial statements of the Group but may change the disclosure presently made in the financial statements of the Group.

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 from time to time. Derivatives are exclusively used for hedging purposes, not as trading or other speculative instruments. Cash and cash equivalents are invested exclusively with 'A' rated financial institutions, at a minimum, with capital preservation being the stated investment objective. Risk management is carried out under policies approved by the board of directors.

The Group holds the following financial instruments:

	2016	2015
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	1,194	3,383
Trade and other receivables	78	25
	<u>1,272</u>	<u>3,408</u>
Financial liabilities		
Trade and other payables	102	554
	<u>102</u>	<u>554</u>

(a) Market risk

(i) Foreign exchange risk

The Group is not currently 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.

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

	30 June 2016	30 June 2015
Cash at bank	115	2,322
Trade payables	-	55

Group sensitivity

Based on the financial instruments held at 30 June 2016, had the Australian dollar weakened / strengthened by 15% (2015: 15%) against the US dollar with all other variables held constant, the Group's post-tax loss for the year would have been \$8,000 lower / \$6,000 higher (2015: \$0.5 million lower / \$0.4 million higher), mainly as a result of foreign exchange gains / losses on translation of US dollar denominated financial instruments as detailed in the above table. The Group's exposure to other foreign exchange movements is not material.

(ii) Price risk

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

(iii) Cash flow and interest rate risk

The Group's main interest rate risk arises from the holding of cash and cash equivalents. During the year, the Group held its funds at bank which limited the exposure of the Group's income and operating cash flows to changes in market interest rates.

The value of borrowings at 30 June 2016 was \$nil (2015: \$nil), thus limiting the Group's exposure to any cash flow risk in relation to liabilities.

Group sensitivity

As at 30 June 2016, if interest rates had changed by -17 / + 25 basis points (2015: -17 / + 25 basis points) from the year-end rates with all other variables held constant, the post-tax loss for the year would have been \$nil higher / \$nil lower (2015: \$nil higher / \$nil lower), mainly as a result of lower / higher interest income from cash and cash equivalents.

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are acceptable. At 30 June 2016, cash equivalents were held with financial institutions rated Aa2 / A2 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 2016. Due to negative operating cash flow position, the Group has not committed to any credit facilities and relied upon equity financing through private and public equity investors.

The Group entity's exposure to liquidity risk is restricted to the value of outstanding trade creditors. Trade payables generally have 30 day payment terms, and at 30 June 2016, the Group had no overdue liabilities. The value of trade creditors at 30 June 2016 for the Group was \$41,000 (2015: \$183,000) which is payable within 1 month of year end and at 30 June 2016, the entity carried cash and cash equivalents of \$1.2 million (2015: \$3.4million). Other payables for the Group include accruals for employee benefits and other accruals to the value of \$194,000 (2015: \$561,000).

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

(d) Fair value measurements

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

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

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

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

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

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.

Black-Scholes option pricing model

During the year \$17,000 (2015: \$1.0 million) of share based payments were written back by the Group. The expense that was recognised in previous years was determined through the application of the Black-Scholes option pricing model. The Black-Scholes model is dependent on a number of variables and estimates.

4 Segment information

Based on the internal reports that are reviewed and used by the board of directors (the chief operating decision makers) in assessing performance and in determining the allocation of resources, the Group has determined that it operates within a single operating segment. The operating segment is that of the research and development of biopharmaceutical products for commercial sale.

5 Revenue

	2016 \$'000	2015 \$'000
From continuing operations		
Interest	<u>16</u>	<u>9</u>
	<u>16</u>	<u>9</u>

6 Other income

	2016 \$'000	2015 \$'000
Research and development tax incentive	<u>-</u>	<u>47</u>
	<u>-</u>	<u>47</u>

During the prior year ended 30 June 2015 the company received a research and development cash incentive from the Australian Taxation Office in relation to the financial year ended 30 June 2014.

7 Expenses

	2016 \$'000	2015 \$'000
Loss before income tax includes the following specific expenses:		
<i>Research and development</i>		
Research and development expense	<u>78</u>	<u>1,844</u>
<i>Employee benefits expense</i>		
Employee benefits expense	253	1,896
Termination benefits expense	121	1,470
Defined contribution superannuation expense	23	43
Share-based payments charge / (write-back)	<u>(17)</u>	<u>(998)</u>
	<u>380</u>	<u>2,411</u>
<i>Depreciation and amortisation</i>		
Plant and equipment	<u>2</u>	<u>12</u>
<i>Loss on Disposal / Retirement of Fixed Assets</i>		
Loss	<u>-</u>	<u>115</u>
<i>Rental expenses relating to operating leases</i>		
Minimum lease payments	<u>-</u>	<u>147</u>

8 Income tax benefit

	2016 \$'000	2015 \$'000
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	<u>(1,764)</u>	<u>(5,384)</u>
Tax at the Australian tax rate of 30% (2015 – 30%)	<u>(529)</u>	<u>(1,615)</u>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	<u>(5)</u>	<u>(300)</u>
	<u>(534)</u>	<u>(1,915)</u>
Adjustment for current tax of prior periods	<u>(365)</u>	<u>(423)</u>
Income tax losses not recognised	<u>899</u>	<u>2,338</u>
Income tax expense	<u>-</u>	<u>-</u>
	2016	2015
	\$'000	\$'000
(b) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	<u>133,813</u>	<u>130,815</u>
Potential tax benefit @ 30%	<u>40,144</u>	<u>39,245</u>

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

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

(c) Tax consolidation legislation

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

9 Current assets – Cash and cash equivalents

	2016 \$'000	2015 \$'000
Cash at bank	<u>1,194</u>	<u>3,073</u>
Escrowed cash	<u>-</u>	<u>310</u>
	<u>1,194</u>	<u>3,383</u>

(a) Cash at bank

These bear an average interest rate of 1.68% (2015: 2.10%) for the AUD accounts and 0% (2015: 0%) for the USD accounts.

(b) Escrowed cash

On 4 July 2014 the Group entered into an Escrow Deed arrangement with its then current employees, consultants and the former CEO, covering potential liabilities arising from i) Notice entitlements, ii) Termination payments and where applicable, iii) Retention payments, for an aggregate amount of \$3.6 million. The Group deposited these funds into a bank account under the administration of an escrow agent in accordance with the terms of the Escrow Deed. A significant portion of these liabilities had been met through to 31 December 2015. Pursuant to the terms of the Escrow Deed the balance of funds held by the escrow agent of \$191,000 were returned to the Group in early January 2016.

10 Current assets – Trade and other receivables

	2016 \$'000	2015 \$'000
Other receivables	<u>78</u>	<u>45</u>
	<u>78</u>	<u>45</u>

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

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value and at 30 June 2016 no receivables were impaired or past due (30 June 2015: \$nil).

11 Current assets – Other current assets

	2016 \$'000	2015 \$'000
Prepayments	<u>2</u>	<u>125</u>

12 Non-current assets – Plant and equipment

	\$'000
At 1 July 2014	
Cost	583
Accumulated depreciation	<u>(460)</u>
Net book amount	<u>123</u>
Year ended 30 June 2015	
Opening net book amount	123
Additions	7
Disposals / retirements	(115)
Depreciation charge	<u>(12)</u>
Closing net book amount	<u>3</u>
At 30 June 2015	
Cost	39
Accumulated depreciation	<u>(36)</u>
Net book amount	<u>3</u>
Year ended 30 June 2016	
Opening net book amount	3
Additions	-
Disposals / retirements	-
Depreciation charge	<u>(2)</u>
Closing net book amount	<u>1</u>
At 30 June 2016	
Cost	39
Accumulated depreciation	<u>(38)</u>
Net book amount	<u>1</u>

13 Non-current assets – Intangible assets

	Patents, trademarks and other rights \$'000	Other intangible assets \$'000	Total \$'000
At 30 June 2015			
Cost	15,502	889	16,391
Accumulated amortisation and impairment	(15,502)	(889)	(16,391)
Net book amount	-	-	-
At 30 June 2016			
Cost	15,502	889	16,391
Accumulated amortisation and impairment	(15,502)	(889)	(16,391)
Net book amount	-	-	-

14 Current liabilities – Trade and other payables

	2016 \$'000	2015 \$'000
Trade payables	41	183
Other payables	61	371
	<u>102</u>	<u>554</u>

15 Provisions

	2016 \$'000	2015 \$'000
Employee Benefits		
Current	133	190
Non-current	<u>-</u>	<u>-</u>
	<u>133</u>	<u>190</u>

The current provision represents benefits that are due to be settled within 12 months after the end of the reporting period to 30 June 2017.

16 Contributed equity

	2016 Shares	2015 Shares	2016 \$'000	2015 \$'000
(a) Share capital				
Ordinary shares - fully paid	<u>164,190,969</u>	<u>164,190,969</u>	<u>155,342</u>	<u>155,342</u>

(b) Movements in ordinary share capital:

Date	Details	Number of shares	\$'000
30 June 2014	Balance	<u>164,190,969</u>	<u>155,342</u>
30 June 2015	Balance	<u>164,190,969</u>	<u>155,342</u>
30 June 2016	Balance	<u>164,190,969</u>	<u>155,342</u>

(c) Ordinary shares

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

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

(d) Options

Information relating to the QRxPharma Limited Employee Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in note 25. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(e) Capital risk management

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

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

17 Reserves and accumulated losses

	2016 \$'000	2015 \$'000
(a) Reserves		
Share-based payments reserve	12,767	12,784
Foreign currency translation reserve	404	395
Transactions with non-controlling interest reserve	456	456
	13,627	13,635
Movements:		
<i>Share-based payments reserve</i>		
Balance 1 July 2015	12,784	13,782
Option expense / (write-back)	(17)	(998)
Balance 30 June 2016	12,767	12,784
<i>Foreign currency translation reserve</i>		
Balance 1 July 2015	395	263
Currency translation differences arising during the year	9	132
Balance 30 June 2016	404	395
<i>Transactions with non-controlling interest reserve</i>		
Balance 1 July 2015	456	456
Balance 30 June 2016	456	456

(b) Accumulated losses

Movements in accumulated losses were as follows:

	2016 \$'000	2015 \$'000
Balance at 1 July 2015	(166,100)	(160,716)
Net loss for the year	(1,764)	(5,384)
Balance 30 June 2016	(167,864)	(166,100)

(c) Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payment reserve is used to recognise:

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

(ii) Foreign currency translation reserve

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

(iii) Transactions with non-controlling interests

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

18 Non-controlling interests

	2016 \$'000	2015 \$'000
Interests in:		
Share capital	122	122
Reserves	122	122
Retained earnings	<u>(309)</u>	<u>(309)</u>
	<u>(65)</u>	<u>(65)</u>

19 Remuneration of auditors

	2016 \$	2015 \$
Auditor of the Group		
<i>Audit</i>		
Audit of the financial statements		
Deloitte Touche Tohmatsu Australia	<u>129,602¹</u>	<u>76,775</u>
Total remuneration for audit and other assurance services	<u>129,602</u>	<u>76,775</u>
<i>Taxation services</i>		
Tax consulting and advice		
Deloitte Touche Tohmatsu Australia	<u>-</u>	<u>-</u>
Total remuneration for taxation services	<u>-</u>	<u>-</u>
Total auditors remuneration		
Deloitte Touche Tohmatsu Australia	<u>129,602</u>	<u>76,775</u>

¹ Includes \$53,102 of additional fees associated with the audit of the financial statements for the 2015 financial year.

The Group did not employ any network firms of the auditor of the Group during the financial year to 30 June 2016.

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

20 Commitments

Operating Leases

The Group leases office premises in Sydney, Australia which from January 2015 was renewed on a month-to-month basis. It previously leased this property on a longer term basis together with a property in New Jersey, USA.

	2016 \$'000	2015 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	-	3
Later than one year but not later than five years	<u>-</u>	<u>-</u>
	<u>-</u>	<u>3</u>

21 Related party transactions

(a) 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	
			2016	2015
			%	%
The Lynx Project Pty Limited	Australia	Ordinary	100	100
Haempatch Pty Limited	Australia	Ordinary /Preference	100	100
QRxPharma, Inc.	USA	Ordinary	100	100
Venomics Pty Limited	Australia	Ordinary	87.4	87.4
Stealthguard Pty Limited	Australia	Ordinary	100	100
Safeguard Therapeutics Pty Limited	Australia	Ordinary	100	100

(b) Key management personnel

	2016	2015
	\$	\$
Short-term employee benefits	393,131	1,463,877
Termination benefits	-	1,058,164
Post-employment benefits	22,961	32,799
Share-based payments	892	(433,304)
	<u>416,984</u>	<u>2,121,536</u>

(c) Outstanding balances

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

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

	2016	2015
	\$'000	\$'000
Loss for the year	(1,764)	(5,392)
Depreciation and amortisation	2	12
Non-cash employee benefits expense / (write-back) - share-based payments	(17)	(998)
Net exchange differences on cash and cash equivalents	(223)	(794)
(Gain)/ Loss on disposal / retirement of fixed assets	-	115
Change in operating assets and liabilities		
(Increase)/decrease in other receivables and prepayments	90	92
(Decrease)/increase in trade creditors, accruals and provisions	(509)	(1,096)
Net cash outflow from operating activities	<u>(2,421)</u>	<u>(8,061)</u>

23 Loss per share

	2016 Cents	2015 Cents
(a) Basic loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	(1.1)	(3.3)
(b) Diluted loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	(1.1)	(3.3)
(c) Reconciliations of earnings used in calculating earnings per share		
	2016 \$'000	2015 \$'000
<i>Basic loss per share</i>		
Loss attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(1,764)	(5,384)
<i>Diluted loss per share</i>		
Loss attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	(1,764)	(5,384)
(d) Weighted average number of shares used as the denominator		
	2016 Number	2015 Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic loss per share</i>	164,190,969	164,190,969
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share</i>	164,190,969	164,190,969

(e) Information concerning the classification of securities

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 25.

24 Parent entity financial information

(a) Summary financial information

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

	2016 \$'000	2015 \$'000
Balance Sheet		
Current assets	1,164	3,374
Non-Current assets	108	182
Total assets	<u>1,272</u>	<u>3,556</u>
Current liabilities	260	778
Non-Current liabilities	-	-
Total liabilities	<u>260</u>	<u>778</u>
<i>Shareholders' equity</i>		
Issued capital	155,342	155,342
Share based payment reserve	12,304	12,322
Accumulated losses	<u>(166,634)</u>	<u>(164,886)</u>
	<u>(1,012)</u>	<u>(2,778)</u>

	2016	2015
	\$'000	\$'000
Loss for the year	<u>(1,748)</u>	<u>(5,316)</u>
Total comprehensive loss	<u>(1,748)</u>	<u>(5,316)</u>

(b) Guarantees entered into by the parent entity

There are no guarantees entered into by the parent entity.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2015.

(d) Commitments of the parent entity

The parent entity leases office premises in Sydney, Australia which from January 2015 were renewed on a month-to-month basis. It previously leased this property on a longer term basis.

	2016	2015
	\$'000	\$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	-	3
Later than one year but not later than five years	<u>-</u>	<u>-</u>
	<u>-</u>	<u>3</u>

25 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 24 April 2007.

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

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

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

Options will lapse if they are not exercised before the expiration date or if the option holder leaves the employment of the Group.

Options granted under the plan carry no dividend or voting rights. The vesting period for each option issued up to 31 December 2008 is 3 years, or as varied by the board, one-third vesting 12 months from the date of grant and the balance vesting equally each year over the remaining two year period. Options issued from 1 January 2009 generally vest over 3 years with the initial vesting on the first anniversary of the date of the grant and subsequent vestings in 8 equal tranches on the first day of each calendar quarter over the following 2 years. When exercisable, each option is convertible into one ordinary share and entitles the holder to the same ordinary share rights as set out in note 16. Shares issued under the scheme may be sold at the expiration of any Restriction Agreement between the eligible employee and the Company. Such restrictions may be imposed by the remuneration committee upon the grant of options under the option plan and such restrictions will be contained in the Option Agreement between the eligible employee and the Company. In all other respects the shares rank equally with other fully paid ordinary shares on issue (refer to note 16(c)).

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

2016 Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Net other changes during the year Number ¹	Balance at end of the year Number	Vested and exercisable at end of the year Number
31 August 2009	31 August 2016	\$0.65	250,000	-	-	(250,000)	-	-
17 February 2010	17 February 2017	\$0.84	100,000	-	-	(100,000)	-	-
24 August 2010	24 August 2017	\$0.95	50,000	-	-	-	50,000	50,000
1 January 2011	1 January 2018	\$1.40	170,000	-	-	(150,000)	20,000	20,000
23 January 2012	23 January 2019	\$1.50	200,000	-	-	(200,000)	-	-
23 January 2012	23 January 2016	\$2.15	240,000	-	-	(240,000)	-	-
7 November 2012	7 November 2019	\$0.72	150,000	-	-	(150,000)	-	-
7 November 2012	7 November 2016	\$1.03	230,000	-	-	(30,000)	200,000	200,000
13 November 2013	13 November 2017	\$0.91	450,000	-	-	(50,000)	400,000	-
Total			1,840,000	-	-	(1,170,000)	670,000	270,000
Weighted average exercise price			\$1.14	\$0.00	\$0.00	\$1.25	\$0.96	\$1.04

¹ Theses options lapsed during the year ended 30 June 2016

2015 Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Net other changes during the year Number ²	Balance at end of the year Number	Vested and exercisable at end of the year Number
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 April 2008	1 April 2015	\$1.04	75,000	-	-	(75,000)	-	-
1 April 2008	1 April 2015	\$1.05	600,000	-	-	(600,000)	-	-
1 January 2009	1 January 2016	\$0.20	60,000	-	-	(60,000)	-	-
31 August 2009	31 August 2016	\$0.65	299,583	-	-	(49,583)	250,000	250,000
16 November 2009	16 November 2016	\$1.12	300,000	-	-	(300,000)	-	-
1 January 2010	1 January 2017	\$0.78	100,000	-	-	(100,000)	-	-
17 February 2010	17 February 2017	\$0.84	329,584	-	-	(229,584)	100,000	100,000
1 July 2010	1 July 2017	\$1.15	200,000	-	-	(200,000)	-	-
24 August 2010	24 August 2017	\$0.95	50,000	-	-	-	50,000	50,000
1 October 2010	1 October 2017	\$0.93	150,000	-	-	(150,000)	-	-
25 October 2010	25 October 2014	\$1.24	25,000	-	-	(25,000)	-	-
8 November 2010	8 November 2017	\$1.00	850,000	-	-	(850,000)	-	-
1 January 2011	1 January 2018	\$1.40	612,500	-	-	(442,500)	170,000	170,000
1 January 2011	1 January 2015	\$2.00	270,000	-	-	(270,000)	-	-
7 July 2011	7 July 2018	\$1.70	150,000	-	-	(150,000)	-	-
28 September 2011	28 September 2018	\$1.22	15,000	-	-	(15,000)	-	-
18 November 2011	18 November 2018	\$1.60	250,000	-	-	(250,000)	-	-
23 January 2012	23 January 2019	\$1.50	835,000	-	-	(635,000)	200,000	200,000
23 January 2012	23 January 2016	\$2.15	300,000	-	-	(60,000)	240,000	240,000
1 April 2012	1 April 2019	\$1.72	350,000	-	-	(350,000)	-	-
7 November 2012	7 November 2019	\$1.00	450,000	-	-	(450,000)	-	-
7 November 2012	7 November 2019	\$0.72	1,020,000	-	-	(870,000)	150,000	150,000
7 November 2012	7 November 2016	\$1.03	430,000	-	-	(200,000)	230,000	191,667
19 February 2013	19 February 2020	\$0.94	300,000	-	-	(300,000)	-	-
13 November 2013	13 November 2017	\$0.63	1,650,000	-	-	(1,650,000)	-	-
13 November 2013	13 November 2017	\$0.91	530,000	-	-	(80,000)	450,000	-
1 May 2014	1 May 2021	\$0.15	4,500,000	-	-	(4,500,000)	-	-
Total			14,876,667	-	-	(13,036,667)	1,840,000	1,351,667
Weighted average exercise price			\$0.80	\$0.00	\$0.00	\$0.75	\$1.14	\$1.22

² Theses options lapsed during the year ended 30 June 2015.

There were no share options exercised during the year ended 30 June 2016 (2015 – Nil).

The weighted average remaining contractual life of the share options outstanding at the end of the period was 1.03 years. (2015 – 2.12 years)

Fair value of options granted

There were no options granted during the year ended 30 June 2016 (2015 – Nil).

(c) Expenses / (write-back) arising from share-based payment transactions

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

	2016	2015
	\$'000	\$'000
Options issued under employee option plan	(17)	(998)

26 Events occurring after the balance sheet date

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

Directors' declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 23 to 49 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of their performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

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

On behalf of the directors.



Bruce A Hancox
Director

Sydney
17 August 2016

Independent Auditor's Report to the Members of QRxPharma Limited

Report on the Financial Report

We have audited the accompanying financial report of QRxPharma Limited, which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 23 to 50.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of QRxPharma Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion,

(a) the financial report of QRxPharma Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without modifying our opinion, we draw attention to Note 1(b) in the financial report which indicates that the consolidated entity incurred a net loss of \$1.8 million (2015: \$5.4 million) and had net cash outflows from operating activities of \$2.4 million (2015: \$8.1 million loss) for the year ended 30 June 2016. These conditions, along with other matters as set forth in Note 1(b), indicate the existence of a material uncertainty which may cast significant doubt about the company's and consolidated entity's ability to continue as going concerns and whether they will realise their assets and extinguish their liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 13 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of QRxPharma Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Delaney

X Delaney
Partner

Chartered Accountants

Parramatta

Dated: 17 August 2016

Shareholder information

The shareholder information set out below was applicable as at 15 August 2016.

A. Distribution of equity securities

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

	Shares	Options
1 - 1,000	375	-
1,001 - 5,000	489	-
5,001 - 10,000	360	2
10,001 - 100,000	844	1
100,001 and over	192	1
	<u>2,260</u>	<u>4</u>

There are 1,435 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

Name	Ordinary shares	
	Number held	Percentage of issued shares
HSBC Custody Nominees (Australia) Limited	15,044,828	9.16%
J P Morgan Nominees Australia Limited	14,806,239	9.02%
Citicorp Nominees Pty Limited	7,498,986	4.57%
Auckland Trust Company Limited	7,288,750	4.44%
Werft Pty Limited	5,619,315	3.42%
McNeil Nominees Pty Limited	4,277,224	2.61%
Dr Gary W Pace	3,615,268	2.20%
Mrs Suhua Wu	3,046,491	1.86%
UIIT Pty Limited	2,610,408	1.59%
National Nominees Limited	2,298,347	1.40%
Spring Ridge Ventures I, LP	2,128,673	1.30%
Dr John W Holaday	2,074,000	1.26%
Mr Ian Weetman	1,790,960	1.09%
First Investment Partners Pty Ltd	1,757,234	1.07%
Tesroff Pty Limited	1,495,055	0.91%
Grozier Pty Limited	1,393,608	0.85%
Mr Robert Bradfield	1,350,000	0.82%
Dr Peter C Farrell	1,345,540	0.82%
Mr Xiang Liu	1,320,950	0.80%
Walker Group Holdings Pty Ltd	1,250,000	0.76%
	<u>82,011,876</u>	<u>49.95%</u>

Unquoted equity securities

Options issued under the QRxPharma Limited Employee Share Option Plan to take up ordinary shares

Number on issue	Number of holders
670,000*	4**

*Number of unissued ordinary shares under the options.

** With the exception of Chris J Campbell, no person holds 20% or more of these securities.

C. Substantial holders

Substantial holders in the Company are set out below:

	Number held	Percentage
Ordinary shares		
Allan Gray Investment Management	19,746,950	12.03%
Walker Group Holdings Pty Limited, Auckland Trust Company Limited, Tesroff Pty Limited and Werft Pty Limited	15,653,120	9.53%

D. Voting rights

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

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