QRxPharma Limited

ABN 16 102 254 151

ASX Preliminary final report – 30 June 2013

Lodged with the ASX under Listing Rule 4.3A

This Preliminary final report should be read in conjunction with the 30 June 2013 consolidated financial statements and accompanying notes, including ASX announcements issued after this date.

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Appendix 4E Preliminary Final Report

QRxPharma Limited
ABN 16 102 254 151

1. Reporting Period

Report for the financial year ended 30 June 2013 (FY 2013).
Previous corresponding period is the financial year ended 30 June 2012 (FY 2012).
QRxPharma or the Company refers to QRxPharma Limited and the Group refers to the Company and its controlled entities.

2. Results for announcement to the market

				$A'000
Revenue from ordinary activities *(item 2.1)*	Up	112%	To	4,066
Net loss from ordinary activities after tax attributable to members *(item 2.2)*	Down	37%	To	(10,075)
Net loss for the period attributable to members *(item 2.3)*	Down	37%	To	(10,075)

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

Revenue

On 20 December 2011, the Company signed a binding Letter of Intent (LOI) with Actavis Inc. (Actavis) to commercialise immediate release MOXDUO® in the US. The LOI was secured by a non-refundable, non-creditable up front signing fee of $5.9 million (US$ 6 million). The fee revenue will be recognised from the date of the signing of the LOI to the anticipated United States Food and Drug Administration (FDA) approval date representing an approximation of the time relating to the submission of the filing with the FDA and associated processes. The Group has recognised $3.5 million (2012: $1.8 million) as revenue and $592,000 (2012: $4.1 million) as deferred revenue in the year to 30 June 2013.

In addition, on 9 October 2012, the Company signed a license agreement with Paladin Labs Inc. (Paladin) to commercialise immediate release MOXDUO in Canada. The license agreement was secured by a one-time, non-refundable, non-creditable upfront fee in the amount of $485,000 (US$ 500,000). The fee has been recognised as revenue in the year to 30 June 2013.

Net loss from ordinary activities

The net loss of $10.1 million (2012: net loss $16 million) from ordinary activities resulted from the Company's continuing efforts to secure approval for immediate release MOXDUO. This included efforts to obtain approval from the FDA of a New Drug Application (NDA) in the US, and activities associated with the preparation of the regulatory filings in Canada, Europe and Australia. Total expenditure during FY2013 decreased with the reduction in clinical activities and the focus by the Company on the refiling of the NDA and efforts to obtain approval for the FDA for immediate release MOXDUO.

The net loss includes the following key items:

- Research and development expenditure of $8.3 million (2012: $9.2 million) which includes $3.8 million (2012: $3.1 million) for clinical and regulatory activities associated with the progression of the NDA for immediate release MOXDUO with the FDA, including preparation for the FDA Advisory Committee; $0.6 million (2012: $0.4 million) for advancing the regulatory filings for immediate release MOXDUO in Canada, Europe and Australia and $2.9 million (2012: $2.9 million) for product and manufacturing process development. The FY2012 expenditure also included clinical costs of $1.3 million for two Phase I studies for MOXDUO CR, the controlled release formulation, and $0.3 million for the Torsin programme.
- Employee benefits expense of $4.2 million (2012: $7.2 million), which comprises salaries and wages expense of $2.8 million (2012: $4.0 million) and non cash share based payments expense of $1.4

million (2012: $2.2 million). These employee benefits expenses were lower for FY2013 following a reduction in employee head count after the receipt of the Complete Response Letter (CRL) in June 2012 from the FDA. Further, $Nil bonuses were awarded during FY2013 (2012: $1.0 million).

- Business development expenses of $0.7 million (2012: $1.3 million) associated with MOXDUO.
- Foreign exchange gain of $0.6 million (2012: $2.0 million)
- Other expenses of $1.7 million (2012: $2.5 million). In FY2012 these other expenses included $0.4 million for the impairment in the carrying value of the available-for-sale financial asset, representing the 6.98% investment in Venomics Hong Kong Limited by Venomics Pty Limited, as well as $0.2 million for the purchase of foreign exchange option contracts.

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

3. **Statement of comprehensive income** - Refer to the attached Financial report

4. **Balance sheet** - Refer to the attached Financial report

5. **Statement of cash flows** - Refer to the attached Financial report

6. **Statement of changes in equity** - Refer to the attached Financial report

7. **Dividends** – It is not proposed that the Company pay a dividend.

8. **Dividends** – It is not proposed that the Company pay a dividend.

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

	30 June 2013	30 June 2012
Net tangible assets per ordinary share	$0.068	$0.126

10. The Group did not acquire or lose control over any entities during the period. (2012: none)

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

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

At 30 June 2013, the Company had cash reserves of $12 million (2012: $23 million).

The operating results for the year ended 30 June 2013 are reflective of the Company's focus and efforts to obtain FDA approval in the US for its lead compound, immediate release MOXDUO, and the continuing efforts to advance regulatory filings for immediate release MOXDUO in Canada, Europe and Australia. In addition to the expenses associated with these activities, the Company recognised and also received revenues from commercial arrangements for immediate release MOXDUO.

Key Achievements during the Financial Year

QRxPharma is developing proprietary Dual Opioid® formulations for treating patients with moderate to severe acute or chronic pain. This patented Dual Opioid product pipeline combines morphine and oxycodone to potentially offer physicians broader treatment options than traditional opioids, a large and growing market hindered by older therapies with debilitating side effects. Worldwide sales for all opioids are $14 billion and growing at 6%. The Company's Dual Opioids are first in class and at present there are no combination opioid - opioid products available commercially anywhere in the world.

The Company's proprietary Dual Opioid pipeline includes three complementary products to address various pain management needs:

- immediate release MOXDUO®, an oral capsule for the treatment of moderate to severe acute pain;

- MOXDUO CR, a controlled-release oral tablet for chronic pain; and
- MOXDUO IV, an intravenous formulation for hospital use.

QRxPharma has also developed a proprietary abuse deterrence technology, referred to as Stealth Beadlets®, which was developed for the controlled release MOXDUO formulation for the treatment of chronic pain. Stealth Beadlets may be incorporated into almost any potentially abused drug (e.g. opioids, amphetamines, sedatives, etc.) that are sold in solid dosage forms (e.g. tablet, capsule, sachet); they provide significant resistance against the extraction of active ingredients if crushed, solubilized or heated.

Regulatory

The near term commercial opportunity and focus for the Company rests with the regulatory approval of immediate release MOXDUO in the US. Having been denied in June 2012 a first cycle approval by the FDA of its NDA, the Company continued to progress towards an approval during the financial year culminating in the following key regulatory events:

- February 2013: resubsmission of a NDA to the FDA which included a comprehensive analysis of an additional study being Study 022, which demonstrated the lower risks of respiratory depression of immediate release MOXDUO when compared to either of its components; morphine or oxycodone.
- March 2013: the FDA accepted the refiled NDA for review and set 26 August 2013 as the Prescription Drug User Fee Act (PDUFA) date for action on the Company's resubmitted NDA.
- March 2013: whilst the FDA confirmed that there were no efficacy or safety issues in any of the studies that were part of the original NDA, it determined that the resubmitted NDA, including new results from Study 022, would undergo review by an FDA Advisory Committee to evaluate the approvability of MOXDUO in the management of acute pain. The FDA subsequently set 17 July 2013 as the date for the Advisory Committee meeting.
- June 2013: the Advisory Committee Meeting of 17 July 2013 was delayed in order to allow the Company and the FDA time to fully consider more results of recent findings for Study 022. During preparation for the Advisory Committee Meeting, the Company found that for 17% of the 375 patients enrolled in Study 022, the timing of the electronically collected oxygen desaturation information at one trial site did not accurately reflect the local time zone or changes relating to daylight savings time. For these patients, this resulted in a displacement of electronic oxygen desaturation data relative to nurse-reported events by 1 or 2 hours out of the 48-hour study.
- August 2013: the FDA issued QRxPharma a CRL regarding the Company's MOXDUO NDA to allow time to submit and evaluate further information required for the FDA to fully consider the respiratory safety advantages of MOXDUO from Study 022. With the issue of the CRL, in order to maintain FDA review, the Company is required to resubmit its NDA. QRxPharma plans to complete its refiling in Q4 2013, inclusive of the additional information and analysis as requested by the FDA. QRxPharma anticipates a new PDUFA (Prescription Drug User Fee Act) date in Q2 2014, preceded by an Advisory Committee meeting.

Commercialisation

During the year QRxPharma entered into a strategic collaboration with Paladin. Under the License Agreement, Paladin has exclusive rights to commercialise immediate release MOXDUO for the Canadian market, is responsible for the New Drug Submission (NDS), all product launch costs, as well as ongoing marketing and sales efforts. QRxPharma will receive tiered double digit royalties and up to US$25 million in milestone payments on achievement of specific sales, regulatory and reimbursement targets.

In July 2013 the Company signed a Collaboration Agreement with Aesica Formulation Development Limited (Aesica) for the world-wide promotion of the Company's proprietary Stealth Beadlets abuse deterrent technology. Aesica supplies pharmaceutical contract development and manufacturing services globally and operates six manufacturing sites across the UK, Germany and Italy. Under the Collaboration Agreement Aesica will enter into fee-for-service contracts with such third parties for the development of the new Abuse Deterrent Formulations (ADF) of specific drugs of interest, whilst QRxPharma will negotiate license terms directly with each party.

Intellectual Property

The Company continued to stengthen its intellectual property portfolio during the year. In June 2013 the United States Patent and Trademark Office (USPTO) issued the Company US Patent No 8,461,171, expiring in 2031, titled "Hybrid Opioid Compounds and Compositions". While immediate release MOXDUO is a combination of two separate opioid salts in the same capsule, this patent covers a hybrid morphine-oxycodone molecule where these two different opioids are chemically linked. The resulting new composition of matter has activity that is greater than equimolar amounts of the molecules administered separately. The patent covers the development of new chemical entities that have the potential to provide better pain relief and fewer side effects than their individual components. This patent is part of a portfolio of Company patents that extend the duration of protection for MOXDUO in various formulations up until 2029.

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

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

This preliminary financial report is based on financial statements and notes which are in the process of being audited and are not subject to any qualifications or disputes.

The entity has a formally constituted audit committee.

C. J. Campbell

Chris J Campbell
Company Secretary
QRxPharma Limited
29 August 2013

QRxPharma Limited ABN 16 102 254 151
Financial report - 30 June 2013

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ATTACHMENT 1

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

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

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

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 Investors 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 2013

	Notes	**2013 $'000**	2012 $'000
Revenue from continuing operations	5	**4,066**	1,919
Other income	6	**747**	2,266
Research and development expense	7	**(8,260)**	(9,162)
Employee benefits expense	7	**(4,204)**	(7,192)
Depreciation and amortisation	7	**(64)**	(65)
Business development expense		**(675)**	(1,343)
Other expenses		**(1,690)**	(2,468)
Loss before income tax		**(10,080)**	(16,045)
Income tax benefit	8	**-**	-
Loss from continuing operations		**(10,080)**	(16,045)
Loss for the year		**(10,080)**	(16,045)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**149**	82
Other comprehensive income for the year, net of tax		**149**	82
Total comprehensive (loss) for the year		**(9,931)**	(15,963)
Loss for the year is attributable to:			
Owners of QRxPharma Limited		**(10,075)**	(15,949)
Non-controlling interests		**(5)**	(96)
		(10,080)	(16,045)
Total comprehensive (loss) is attributable to:			
Owners of QRxPharma Limited		**(9,926)**	(15,867)
Non-controlling interests		**(5)**	(96)
		(9,931)	(15,963)
Earnings per share for loss attributable to the ordinary equity holders of the Company:		**Cents**	Cents
Basic loss per share	28	**(7.0)**	(11.2)
Diluted loss per share	28	**(7.0)**	(11.2)

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 2013

	Notes	**2013 $'000**	2012 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	**11,960**	22,950
Trade and other receivables	10	**308**	1,212
Other current assets	11	**220**	458
Total current assets		**12,488**	24,620
Non-current assets			
Plant and equipment	12	**135**	191
Available-for-sale financial asset	13	**-**	-
Intangible assets	14	**-**	-
Total non-current assets		**135**	191
Total assets		**12,623**	24,811
LIABILITIES			
Current liabilities			
Trade and other payables	15	**1,710**	1,533
Provisions	16	**240**	824
Other current liabilities	17	**592**	4,055
Total current liabilities		**2,542**	6,412
Non-current liabilities			
Provisions	16	**234**	201
Total non-current liabilities		**234**	201
Total liabilities		**2,776**	6,613
Net assets		**9,847**	18,198
EQUITY			
Contributed equity	18	**144,433**	144,281
Reserves	19(a)	**12,846**	11,269
Accumulated losses	19(b)	**(147,381)**	(137,306)
Capital and reserves attributable to owners of QRxPharma Limited		**9,898**	18,244
Non-controlling interests	20	**(51)**	(46)
Total equity		**9,847**	18,198

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 2013

	Attributable to the owners of QRxPharma Limited					
	Contributed equity	**Reserves**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2011	**118,809**	**9,025**	**(121,357)**	**6,477**	**50**	**6,527**
Loss for the year as reported in the 2012 financial statements	-	-	(15,949)	(15,949)	(96)	(16,045)
Other comprehensive income	-	82	-	82	-	82
Total comprehensive loss for the year	-	82	(15,949)	(15,867)	(96)	(15,963)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	25,472	-	-	25,472	-	25,472
Employee share scheme	-	2,162	-	2,162	-	2,162
	25,472	2,244	(15,949)	11,767	(96)	11,671
Balance at 30 June 2012	**144,281**	**11,269**	**(137,306)**	**18,244**	**(46)**	**18,198**
Loss for the year	-	-	(10,075)	(10,075)	(5)	(10,080)
Other comprehensive income	-	149	-	149	-	149
Total comprehensive loss for the year	-	149	(10,075)	(9,926)	(5)	(9,931)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	152	-	-	152	-	152
Employee share scheme	-	1,428	-	1,428	-	1,428
	152	1,577	(10,075)	(8,346)	(5)	(8,351)
Balance at 30 June 2013	**144,433**	**12,846**	**(147,381)**	**9,898**	**(51)**	**9,847**

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 2013

	Notes	**2013 $'000**	2012 $'000
Cash flows from operating activities			
Receipts from licensees of cost recoveries		**1,635**	-
Payments to suppliers and employees (inclusive of goods and services tax)		**(14,056)**	(17,760)
		(12,421)	(17,760)
Interest received	5	**60**	114
License fee received	5	**485**	5,918
Grant received	6	**150**	-
Net cash (outflow) from operating activities	27	**(11,726)**	(11,728)
Cash flows from investing activities			
Payments for plant and equipment		**(13)**	(60)
Net cash (outflow) from investing activities		**(13)**	(60)
Cash flows from financing activities			
Proceeds from issue of shares	18	**152**	26,750
Payments made in relation to capital raising		**-**	(1,278)
Net cash inflow from financing activities		**152**	25,472
Net increase/ (decrease) in cash and cash equivalents		**(11,587)**	13,684
Cash and cash equivalents at the beginning of the financial year		**22,950**	7,291
Effects of exchange rate changes on cash and cash equivalents	6	**597**	1,975
Cash and cash equivalents at end of year	9	**11,960**	22,950

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

Contents of the notes to the consolidated financial statements

1 Summary of significant accounting policies

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

a) Basis of preparation

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

(i) New and amended standards adopted by the Group
None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 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 2012.

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 2013, the Group incurred a net loss of $10.1 million (2012: $16 million) and had net cash outflows from operating activities of $11.7 million (2012: $11.7 million). As at 30 June 2013, the Group holds cash and cash equivalents of $12 million (2012: $23 million).

The ability of the Company and the Group to continue as going concerns for 12 months from the date of signing this preliminary final report is dependent upon the Company being successful in completing a further capital raising to provide the necessary funding to meet the Company's ongoing research and development costs and execute on the corporate strategy.

Given the success of past capital raisings by the Company and management's plan to raise further funds, the directors remain confident about the successful outcome of the above factors and that it is therefore appropriate to prepare the financial statements on the going concern basis.

However, in the event that the Company is unable to complete a further capital raising sufficient to meet its research and development requirements, significant uncertainty would exist as to whether the Company and the Group will continue as going concerns and, therefore, whether they will realise their assets and settle their liabilities and commitments 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 2013 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.

c) Principles of consolidation (continued)

(i) Subsidiaries (continued)

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

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

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

(ii) Changes in ownership interests

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

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

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

d) Segment reporting

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

e) Foreign currency 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.

e) Foreign currency translation (continued)

(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 acquire 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

h) Business combinations (continued)

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.

l) Investments and other financial assets (continued)

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

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 24). Payments made under operating leases (net of any incentive received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

q) Employee benefits

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

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

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

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

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

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

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

q) Employee benefits (continued)

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

w) Parent entity financial information

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

(i) Investments in subsidiaries, associates and joint venture entities
Investments in subsidiaries are accounted for at cost in the financial statements of QRxPharma Limited.

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

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

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

x) New accounting standards and interpretations

(i) Standards and interpretations adopted during the period

The Group has adopted the amendments to Australian Accounting Standards during the current reporting period as a consequence of AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'. The adoption of the amendments has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior interim periods. However, the application of AASB 2011-9 has resulted in changes to the Group's presentation of, or disclosure in, its financial statements.

AASB 2011-9 introduces new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB 101, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

(ii) Standards and interpretations in issue not yet adopted

At the date of authorisation of the financial statements, a number of standards and interpretations were in issue but not yet effective. The reported results and position of the Group will not change on adoption of these pronouncements as currently there are no transactions that will be impacted materially by these pronouncements. Adoption will, however, result in changes to information currently disclosed in the financial statements. The Group does not intend to adopt any of these pronouncements before their effective dates.

Standard/Interpretation	**Effective for annual reporting periods beginning on or after**	**Expected to be initially applied in the financial year ending**
AASB 9 Financial Instruments (December 2009), AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2012-6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures'	1 January 2015	30 June 2016
AASB 10 Consolidated Financial Statements	1 January 2013	30 June 2014

x) New accounting standards and interpretations (continued)

AASB 11 Joint Arrangements	1 January 2013	30 June 2014
AASB 12 Disclosure of Interests in Other Entities	1 January 2013	30 June 2014
AASB 127 Separate Financial Statements (2011)	1 January 2013	30 June 2014
AASB 128 Investments in Associates and Joint Ventures (2011)	1 January 2013	30 June 2014
AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards	1 January 2013	30 June 2014
AASB 119 Employee Benefits (2011), AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (2011)	1 January 2013	30 June 2014
AASB 13 Fair Value Measurement, AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13	1 January 2013	30 June 2014
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	1 January 2013	30 June 2014

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:

	2013 **$'000**	2012 $'000
Financial assets		
Cash and cash equivalents	**11,960**	22,950
Trade and other receivables	**308**	1,187
	12,268	24,137
Financial liabilities		
Trade and other payables	**1,710**	1,533
	1,710	1,533

(a) Market risk

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

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

2 Financial risk management (continued)

	30 June 2013			30 June 2012		
	USD	**EUR**	**GBP**	USD	EUR	GBP
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Cash at bank	**381**	-	-	563	2	29
Term deposits	**9,820**	-	-	22,047	-	-
Trade payables	**15**	-	-	14	-	-

Group sensitivity
Based on the financial instruments held at 30 June 2013, had the Australian dollar weakened / strengthened by 15% (2012: 15%) against the US dollar with all other variables held constant, the Group's post-tax loss for the year would have been $2.0 million lower / $1.5 million higher (2012: $4.6 million lower / $3.4 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 significant interest-bearing bank term deposits exposing the Group's income and operating cash flows to changes in market interest rates.

The value of borrowings at 30 June 2013 was $nil (2012: $nil), thus limiting the Group's exposure to any cash flow risk in relation to liabilities.

Group sensitivity
As at 30 June 2013, if interest rates had changed by -17 / + 25 basis points (2012: -25 / + 40 basis points) from the year-end rates with all other variables held constant, the post-tax loss for the year would have been $6,000 higher / $4,000 lower (2012: $21,000 higher / $13,000 lower), mainly as a result of lower / higher interest income from cash and cash equivalents.

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are acceptable. At 30 June 2013, cash equivalents were held with financial institutions rated Aa2 by Moody's.

(c) Liquidity risk

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

The Group has experienced recurring operating losses and operating cash outflows since inception to 30 June 2013. 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 2013, the Group had no overdue liabilities. The value of trade creditors at 30 June 2013 for the Group was $1,160,000 (2012: $757,000) which is payable within 1 month of year end and at 30 June 2013, the entity carried cash and cash equivalents of $12 million (2012: $23 million). Other payables for the Group include accruals for employee benefits and other accruals to the value of $1,024,000 (2012: $1,801,000).

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices for similar instruments and recent transactions are used to estimate fair value. The Group has fully impaired the available-for-sale financial assets with $nil at 30 June 2013 (2012: $nil).

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

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

2 Financial risk management (continued)

(d) Fair value measurements

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

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

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

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

The level 3 instrument was fully written down during the financial year ended 30 June 2012.

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.

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

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

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

Black-Scholes option pricing model
During the year, the Group expensed $1.4 million of share based payments as determined through the application of the Black-Scholes option pricing model. The Black-Scholes model is dependent on a number of variables and estimates fully described in note 30.

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

In the 2013 financial year, the fair value of the relevant asset was assessed and determined to be $nil (2012: $nil).

Revenue Recognition
The Group is recognising revenue associated with the receipt in December 2011 of a non-refundable, non-creditable up front signing fee of AU$5.9 million (US$6 million) from Actavis Inc. from the date of receipt to the anticipated FDA approval date representing an approximation of the time relating to the submission of the filing with the FDA and associated processes.

The Group recognised $3.5 million (2012:$1.8 million) of revenue during the year and has deferred $592,000 (2012: $4.1 million).

4 Segment information

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

5 Revenue

	2013	2012
	$'000	$'000
From continuing operations		
License fees	**4,006**	1,805
Interest	**60**	114
	4,066	1,919

On 20 December 2011, the Company signed a binding Letter of Intent (LOI) with Actavis Inc to commercialise immediate release MOXDUO in the USA. The LOI was secured by a non-refundable, non-creditable up front signing fee of $5.9 million (US$6 million). The fee revenue will be recognised from the date of the signing of the LOI to the anticipated FDA approval date representing an approximation of the time relating to the submission of the filing with the FDA and associated processes. The Group has recognised $3.5 million (2012: $1.8 million) as revenue and $592,000 (2012: $4.1 million) as deferred revenue in the year to 30 June 2013.

On 9 October 2012, the Company signed a license agreement with Paladin Labs Inc. to commercialise immediate release MOXDUO in Canada. The license agreement was secured by a one-time, non-refundable, non-creditable upfront fee in the amount of $485,000 (US$500,000). The fee has been recognised as revenue in the year to 30 June 2013.

6 Other income

	2013	2012
	$'000	$'000
Foreign exchange gain	**597**	1,975
Export market development grant	**150**	-
Sale of derivative financial instrument	**-**	291
	747	2, 266

During the year ended 30 June 2013 there were no purchases of foreign exchange option contracts and no contracts on hand at the end of the financial year. In the previous financial year ended 30 June 2012 the Group purchased a number of foreign exchange option contracts at a cost of $152,000 to protect against adverse movements between the AU$ and US$. These option contracts were not utilised during the period and were repurchased by the bank for $291,000 netting the Group a gain on sale of foreign currency option contracts of $139,000.

7 Expenses

	2013	2012
	$'000	$'000
Loss before income tax includes the following specific expenses:		
Research and development		
Research and development expense	**8,260**	9,162
Employee benefits expense		
Employee benefits expense	**2,731**	4,965
Defined contribution superannuation expense	**45**	65
Share-based payments	**1,428**	2,162
	4,204	7,192
Depreciation and amortisation		
Plant and equipment	**64**	65
Rental expenses relating to operating leases		
Minimum lease payments	**158**	137

8 Income tax benefit

	2013 **$'000**	2012 $'000
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	**(10,075)**	(16,045)
Tax at the Australian tax rate of 30% (2012 – 30%)	**(3,023)**	(4,814)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	**428**	649
Impairment of financial asset	**-**	122
	(2,595)	(4,043)
Adjustment for current tax of prior periods	**(343)**	1,083
Income tax losses not recognised	**2,938**	2,960
Income tax expense	**-**	-

	2013 **$'000**	2012 $'000
(b) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	**107,304**	97,511
Potential tax benefit @ 30%	**32,191**	29,253

No deferred tax asset has been recognised for the tax losses and timing differences generated from operations in both Australia and the USA, as the benefit for tax losses will only be obtained if:
(i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
(ii) the Group continues to comply with the conditions for deductibility imposed by tax legislation, and
(iii) no changes in tax legislation adversely affect the Group in realising the benefit from the deduction for the losses.

(c) Tax consolidation legislation

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

9 Current assets – Cash and cash equivalents

	2013 **$'000**	2012 $'000
Cash at bank	**568**	796
Term deposits	**11,392**	22,154
	11,960	22,950

(a) Cash at bank

These bear an average interest rate of 2.84% (2012: 4.07%) for the AUD accounts and 0% (2012: 0%) for the USD accounts.

(b) Term deposits

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

The USD deposits bear an average fixed interest rate of 0.16% (2012: 0.21%). These deposits have a maturity of less than 3 months.

The AUD deposits bear an average fixed interest rate of 3.8% (2012: 5.15%). These deposits have a maturity of less than 3 months.

10 Current assets – Trade and other receivables

	2013	2012
	$'000	$'000
Interest receivable	**4**	10
Other receivables	**304**	1,202
	308	1,212

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 2013 no receivables were impaired or past due (30 June 2012: nil).

11 Current assets – Other current assets

	2013	2012
	$'000	$'000
Prepayments	**220**	458

12 Non-current assets –Plant and equipment

	$'000
At 1 July 2011	
Cost	478
Accumulated depreciation	(282)
Net book amount	196
Year ended 30 June 2012	
Opening net book amount	196
Additions	60
Depreciation charge	(65)
Closing net book amount	191
At 30 June 2012	
Cost	538
Accumulated depreciation	(347)
Net book amount	191
Year ended 30 June 2013	
Opening net book amount	191
Additions	13
Disposals	(5)
Depreciation charge	(64)
Closing net book amount	135
At 30 June 2013	
Cost	532
Accumulated depreciation	(397)
Net book amount	135

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

	2013 **$'000**	2012 $'000
Unlisted securities		
Equity securities	**-**	-

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

Accordingly, the investment has been fully impaired to $nil.

14 Non-current assets – Intangible assets

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

	Patents, trademarks and other rights $'000	**Other intangible assets $'000**	**Total $'000**
Year ended 30 June 2013	-	-	-
Opening net book amount	-	-	-
Impairment of intellectual property	-	-	-
Amortisation charge	-	-	-
Closing net book amount	-	-	-
At 30 June 2013			
Cost	15,502	889	16,391
Accumulated amortisation and impairment	(15,502)	(889)	(16,391)
Net book amount	-	-	-

15 Current liabilities – Trade and other payables

	2013	2012
	$'000	$'000
Trade payables	**1,160**	757
Other payables	**550**	776
	1,710	1,533

16 Provisions

	2013	2012
	$'000	$'000
Employee Benefits		
Current	**240**	824
Non-current	**234**	201
	474	1,025

The current provision represents benefits that are due to be settled within 12 months after the end of the reporting period to 30 June 2013.

17 Other current liabilities

	2013	2012
	$'000	$'000
Deferred Revenue – see note 5	**592**	4,055

18 Contributed equity

	2013 Shares	2012 Shares	**2013 $'000**	2012 $'000
(a) Share capital				
Ordinary shares - fully paid	**144,785,606**	144,577,206	**144,433**	144,281

(b) Movements in ordinary share capital:

Date	**Details**	**Number of shares**	**Issue price**	**$'000**
30 June 2011	Balance	125,824,127		118,809
28 July 2011	Share placement	17,241,379	$1.45	25,000
2 August 2011	Exercise of employee options	30,000	$0.20	6
2 August 2011	Exercise of employee options	20,000	$0.65	13
30 August 2011	Rights Issue	1,046,351	$1.45	1,517
26 September 2011	Exercise of employee options	20,000	$0.20	4
2 November 2011	Exercise of employee options	8,000	$0.20	2
2 November 2011	Exercise of employee options	5,000	$0.65	3
2 November 2011	Exercise of employee options	50,000	$0.84	42
19 December 2011	Exercise of employee options	33,333	$0.65	22
31 January 2012	Exercise of employee options	7,000	$0.20	1
31 January 2012	Exercise of employee options	3,125	$0.65	2
31 January 2012	Exercise of employee options	8,333	$0.84	7
1 February 2012	Exercise of employee options	25,000	$0.20	5
6 February 2012	Exercise of employee options	50,000	$0.60	30
6 February 2012	Exercise of employee options	60,000	$0.20	12
3 March 2012	Exercise of employee options	3,125	$0.65	2
3 March 2012	Exercise of employee options	8,333	$0.84	7
19 March 2012	Exercise of employee options	16,600	$0.65	11
22 March 2012	Exercise of employee options	25,000	$0.20	5
22 March 2012	Exercise of employee options	15,000	$0.65	10
17 April 2012	Exercise of employee options	20,000	$0.65	13
17 April 2012	Exercise of employee options	20,000	$0.20	4
18 May 2012	Exercise of employee options	37,500	$0.84	32
Less: Transaction costs arising on issue of shares		-		(1,278)
30 June 2012	Balance	144,577,206		144,281
20 December 2012	Exercise of employee options	40,000	$0.20	8
14 January 2013	Exercise of employee options	27,500	$0.65	18
8 May 2013	Exercise of employee options	3,400	$0.65	2
31 May 2013	Exercise of employee options	105,000	$0.90	95
11 June 2013	Exercise of employee options	32,500	$0.90	29
30 June 2013	Balance	144,785,606		144,433

(c) Ordinary shares

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

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

18 Contributed Equity (continued)

(d) Options

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

(e) 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.

19 Reserves and accumulated losses

	2013	2012
	$'000	$'000
(a) Reserves		
Share-based payments reserve	**12,074**	10,646
Foreign currency translation reserve	**316**	167
Transactions with non-controlling interest reserve	**456**	456
	12,846	11,269
Movements:		
Share-based payments reserve		
Balance 1 July 2012	**10,646**	8,484
Option expense	**1,428**	2,162
Balance 30 June 2013	**12,074**	10,646
Foreign currency translation reserve		
Balance 1 July 2012	**167**	85
Currency translation differences arising during the year	**149**	82
Balance 30 June 2013	**316**	167
Transactions with non-controlling interest reserve		
Balance 1 July 2012	**456**	456
Balance 30 June 2013	**456**	456

(b) Accumulated losses

Movements in accumulated losses were as follows:

	2013	2012
	$'000	$'000
Balance at 1 July 2012	**(137,306)**	(121,357)
Net loss for the year	**(10,075)**	(15,949)
Balance 30 June 2013	**(147,381)**	(137,306)

19 Reserves and accumulated losses (continued)

(c) Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payment reserve is used to recognise:

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

(ii) Foreign currency translation reserve

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

(iii) Transactions with non-controlling interests

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

20 Non-controlling interests

	2013	2012
	$'000	$'000
Interests in:		
Share capital	**122**	122
Reserves	**122**	122
Retained earnings	**(295)**	(290)
	(51)	(46)

21 Key management personnel disclosures

(a) Directors

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

(i) Chairman - non-executive
Dr Peter C Farrell

(ii) Executive director
Dr John W Holaday, Managing Director, Chief Executive Officer and Chief Scientific Officer

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

(b) Other key management personnel

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

Name	*Position*
John W Holaday	Managing Director, Chief Executive Officer and Chief Scientific Officer
Edward M Rudnic	Chief Operating Officer
Chris J Campbell	Chief Financial Officer
Richard A Paul	Executive Vice President Drug Development (to 20 January 2013)
M. Janette Dixon	Vice President of Global Business Development

21 Key management personnel disclosures (continued)

(c) Key management personnel compensation

	2013 **$**	2012 $
Short-term employee benefits	**1,822,695**	2,061,061
Post-employment benefits	**23,375**	33,769
Share-based payments	**862,910**	971,034
	2,708,980	3,065,864

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

(d) Equity instrument disclosures relating to key management personnel

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

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

2013 Name	Balance at start of the year	Granted as compensation	Exercised	Forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of QRxPharma Limited							
Peter C Farrell	754,089	75,000	-	-	829,089	729,089	100,000
John W Holaday	1,605,452	300,000	-	-	1,905,452	1,438,785	466,667
Gary W Pace	552,726	75,000	-	-	627,726	527,726	100,000
Michael A Quinn	552,726	75,000	-	-	627,726	527,726	100,000
R Peter Campbell	391,635	75,000	-	-	466,635	366,635	100,000
Other key management personnel of the Group							
Edward M Rudnic	350,000	500,000	-	-	850,000	116,667	733,333
Chris J Campbell	915,226	200,000	-	-	1,115,226	757,934	357,292
Richard A Paul (to 20 January 2013)	450,000	150,000	-	(600,000)	-	-	-
M. Janette Dixon	700,000	200,000	-	-	900,000	545,833	354,167

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

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

21 Key management personnel disclosures (continued)

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

(iii) Share holdings

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

2013 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of QRxPharma Limited				
Ordinary shares				
Peter C Farrell	1,865,367	-	118,588*	1,983,955
John W Holaday	7,609,635	-	-	7,609,635
Gary W Pace	3,526,827	-	88,441*	3,615,268
Michael A Quinn	8,505,322	-	(7,896,335)**	608,987
R Peter Campbell	183,380	-	-	183,380
Other key management personnel of the Group				
Ordinary shares				
Edward M Rudnic	-	-	-	-
Chris J Campbell	94,780	-	-	94,780
Richard A Paul (to 20 January 2013)	-	-	-	-
M. Janette Dixon	70,000	-	(70,000)	-

*The change represents the receipt of an in-specie distribution made by Innovation Capital Limited and Innovation Capital LLC (Innovation Capital Fund I) to its underlying shareholders.

**The disposal represents an in-specie distribution to underlying shareholders by Innovation Capital Limited and Innovation Capital LLC (Innovation Capital Fund I) of 7,982,775 shares and the receipt of 86,440 shares by Michael Quinn and Rosemary Quinn as part of the above noted in-specie distribution.

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

(e) Other transactions with key management personnel

During the year, the Company directly engaged and contracted the services of certain key management personnel to perform consulting services for the Group. The total amount paid to key management personnel for contracted services rendered during the year amounted to $81,049 (2012: $301,775).

22 Remuneration of auditors

	2013	2012
	$	$
(a) Auditor of the Group		
Audit		
Audit of the financial statements		
Deloitte Touche Tohmatsu Australia	**90,000**	-
PricewaterhouseCoopers Australia	**-**	111,000
Total remuneration for audit and other assurance services	**90,000**	111,000
Taxation services		
Tax compliance services		
PricewaterhouseCoopers Australia	**-**	9,270
Tax consulting and advice		
Deloitte Touche Tohmatsu Australia	**12,500**	
PricewaterhouseCoopers Australia	**-**	106,788
Total remuneration for taxation services	**12,500**	116,058
Total remuneration of Deloitte Touche Tohmatsu Australia	**102,500**	-
Total remuneration of PricewaterhouseCoopers Australia	**-**	227,058
(b**) Network firms of the auditor of the Group**		
Taxation services		
Tax compliance services		
PricewaterhouseCoopers	-	33,974
International tax consulting and advice		
PricewaterhouseCoopers	**-**	11,006
Total remuneration of related practices of the auditor of the Group	**-**	44,980
Total auditors remuneration		
Deloitte Touche Tohmatsu Australia	**102,500**	-
PricewaterhouseCoopers	**-**	272,038
	102,500	272,038

At the Company's annual general meeting on 7 November 2012, shareholders approved the appointment of Deloitte Touche Tohmatsu Australia as the new auditors of the Group.

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.

23 Contingencies

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

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

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

24 Commitments

Operating Leases

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

	2013	2012
	$'000	$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**139**	77
Later than one year but not later than five years	**171**	205
	310	282

25 Related party transactions

(a) Subsidiaries

Interests in subsidiaries are set out in note 26.

(b) Key management personnel

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

(c) Outstanding balances

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

26 Subsidiaries

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

Name of entity	**Country of incorporation**	**Class of shares**	**Equity holding**	
			2013	2012
			%	%
The Lynx Project Pty Limited	Australia	Ordinary	**100**	100
Haempatch Pty Limited	Australia	Ordinary /Preference	**100**	100
QRxPharma, Inc.	USA	Ordinary	**100**	100
Venomics Pty Limited	Australia	Ordinary	**80**	80

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

	2013 **$'000**	2012 $'000
Loss for the year	**(10,080)**	(16,045)
Depreciation and amortisation	**64**	65
Non-cash employee benefits expense - share-based payments	**1,428**	2,162
Net exchange differences on cash and cash equivalents	**(448)**	(1,892)
Loss on disposal of fixed assets	**5**	-
Impairment of Venomics Hong Kong Limited	**-**	406
Change in operating assets and liabilities		
(Increase)/decrease in other receivables and prepayments	**1,142**	(1,315)
(Decrease)/increase in trade creditors and accruals	**(3,837)**	4,891
Net cash outflow from operating activities	**(11,726)**	(11,728)

28 Loss per share

	2013 **Cents**	2012 Cents
(a) Basic loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	**(7.0)**	(11.2)
(b) Diluted loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	**(7.0)**	(11.2)

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

	2013 **$'000**	2012 $'000
Basic loss per share		
Loss attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**(10,075)**	(15,949)
Diluted loss per share		
Loss attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**(10,075)**	(15,949)

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

	2013 **Number**	2012 Number
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	**144,622,479**	**142,820,519**
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share	**144,622,479**	**142,820,519**

(e) Information concerning the classification of securities

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

29 Parent entity financial information

(a) Summary financial information

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

Balance Sheet	**2013 $'000**	2012 $'000
Current assets	**12,087**	22,817
Non-Current assets	**1,287**	1,496
Total assets	**13,374**	24,313
Current liabilities	**3,575**	6,079
Non-Current liabilities	**74**	32
Total liabilities	**3,649**	6,111
Shareholders' equity		
Issued capital	**144,433**	144,281
Share based payment reserve	**11,612**	10,183
Accumulated losses	**(146,320)**	(136,262)
	9,725	18,202
(Loss) for the year	**(10,058)**	(15,503)
Total comprehensive (loss)	**(10,058)**	(15,503)

(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 2013 or 30 June 2012.

(d) Commitments of the parent entity

The parent entity leases office premises in Sydney, Australia.

	2013 $'000	2012 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**15**	17

(e) Convertible Note

At 30 June 2013, QRxPharma Limited holds 50,500 (2012: 50,500) convertible notes in Venomics Pty Limited at US$4 face value per note. These notes carry an interest rate of 10% per annum (compounding monthly). Each note is convertible at QRxPharma Limited's request and it also has the ability to require redemption of some or all of the notes under certain conditions. 5,000 notes mature on 1 December 2013 and 45,500 on 20 December 2013.

At 30 June 2013, QRxPharma Limited assessed the carrying value of the notes and determined that these notes may not be recoverable. Accordingly, it has fully impaired the value of these notes to $nil at 30 June 2013 (2012: $nil).

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

30 Share-based payments

(a) QRxPharma Employee Share Option Plan (ESOP)

The QRxPharma Limited Employee Share Option Plan (Limited ESOP) was approved by shareholders at the extraordinary general meeting of members held on 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 18. Shares issued under the scheme may be sold at the expiration of any Restriction Agreement between the eligible employee and the Company. Such restrictions may be imposed by the remuneration committee upon the grant of options under the option plan and such restrictions will be contained in the Option Agreement between the eligible employee and the Company. In all other respects the shares rank equally with other fully paid ordinary shares on issue (refer to note 18(c)).

30 Share-based payments (continued)

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

Grant Date 2013	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
31 March 2007	31 March 2014	$1.42	402,726	-	-	-	402,726	402,726
14 April 2007	14 April 2014	$1.00	2,013,630	-	-	-	2,013,630	2,013,630
25 May 2007	25 May 2014	$1.00	502,726	-	-	-	502,726	502,726
25 May 2007	25 May 2014	$2.00	1,398,450	-	-	-	1,398,450	1,398,450
1 September 2007	1 September 2014	$1.70	50,000	-	-	-	50,000	50,000
1 October 2007	1 October 2014	$1.45	75,000	-	-	-	75,000	75,000
9 October 2007	9 October 2014	$1.34	50,000	-	-	-	50,000	50,000
1 January 2008	1 January 2015	$1.11	200,000	-	-	-	200,000	200,000
1 April 2008	1 April 2015	$1.04	75,000	-	-	-	75,000	75,000
1 April 2008	1 April 2015	$1.05	600,000	-	-	-	600,000	600,000
1 January 2009	1 January 2016	$0.20	100,000	-	(40,000)	-	60,000	60,000
31 August 2009	31 August 2016	$0.65	334,650	-	(30,900)	(4,167)	299,583	299,583
1 October 2009	1 October 2016	$0.90	150,000	-	(137,500)	(12,500)	-	-
16 November 2009	16 November 2016	$1.12	300,000	-	-	-	300,000	300,000
1 January 2010	1 January 2017	$0.78	100,000	-	-	-	100,000	100,000
17 February 2010	17 February 2017	$0.84	460,834	-	-	(56,250)	404,584	404,584
24 March 2010	24 March 2014	$1.26	295,000	-	-	(18,750)	276,250	276,250
1 July 2010	1 July 2017	$1.15	225,000	-	-	-	225,000	206,250
24 August 2010	24 August 2017	$0.95	50,000	-	-	-	50,000	45,833
1 October 2010	1 October 2017	$0.93	150,000	-	-	-	150,000	125,000
25 October 2010	25 October 2014	$1.24	25,000	-	-	-	25,000	20,833
8 November 2010	8 November 2017	$1.00	850,000	-	-	-	850,000	708,333
1 January 2011	1 January 2018	$1.40	1,320,000	-	-	(487,500)	832,500	688,750
1 January 2011	1 January 2015	$2.00	310,000	-	-	(20,000)	290,000	222,500
7 July 2011	7 July 2018	$1.70	150,000	-	-	-	150,000	87,500
28 September 2011	28 September 2018	$1.22	15,000	-	-	-	15,000	8,750
18 November 2011	18 November 2018	$1.60	250,000	-	-	-	250,000	125,000
23 January 2012	23 January 2019	$1.50	1,400,000	-	-	(530,000)	870,000	362,500
23 January 2012	23 January 2016	$2.15	300,000	-	-	-	300,000	125,000
1 April 2012	1 April 2019	$1.72	350,000	-	-	-	350,000	116,667
7 November 2012	7 November 2019	$1.00	-	450,000	-	-	450,000	-
7 November 2012	7 November 2019	$0.72	-	1,215,000	-	(150,000)	1,065,000	50,000
7 November 2012	7 November 2016	$1.03	-	430,000	-	-	430,000	-
19 February 2013	19 February 2020	$0.94	-	300,000	-	-	300,000	-
Total			12,503,016	2,395,000	(208,400)	(1,279,167)	13,410,449	9,700,865
Weighted average exercise price			$1.31	$0.86	$0.73	$1.34	$1.24	$1.27

30 Share-based payments (continued)

Grant Date 2012	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
31 March 2007	31 March 2014	$1.42	402,726	-	-	-	402,726	402,726
14 April 2007	14 April 2014	$1.00	2,013,630	-	-	-	2,013,630	2,013,630
25 May 2007	25 May 2014	$1.00	502,726	-	-	-	502,726	502,726
25 May 2007	25 May 2014	$2.00	1,448,450	-	-	(50,000)	1,398,450	1,398,450
1 September 2007	1 September 2014	$1.70	50,000	-	-	-	50,000	50,000
1 October 2007	1 October 2014	$1.45	75,000	-	-	-	75,000	75,000
9 October 2007	9 October 2014	$1.34	50,000	-	-	-	50,000	50,000
1 January 2008	1 January 2015	$1.11	200,000	-	-	-	200,000	200,000
1 April 2008	1 April 2015	$1.04	75,000	-	-	-	75,000	75,000
1 April 2008	1 April 2015	$1.05	600,000	-	-	-	600,000	600,000
1 October 2008	1 October 2015	$0.60	50,000	-	(50,000)	-	-	-
1 January 2009	1 January 2016	$0.20	295,000	-	(195,000)	-	100,000	100,000
31 August 2009	31 August 2016	$0.65	467,500	-	(116,183)	(16,667)	334,650	306,763
1 October 2009	1 October 2016	$0.90	150,000	-	-	-	150,000	137,500
16 November 2009	16 November 2016	$1.12	300,000	-	-	-	300,000	250,000
1 January 2010	1 January 2017	$0.78	100,000	-	-	-	100,000	83,333
17 February 2010	17 February 2017	$0.84	565,000	-	(104,166)	-	460,834	345,626
24 March 2010	24 March 2014	$1.26	295,000	-	-	-	295,000	221,250
1 July 2010	1 July 2017	$1.15	225,000	-	-	-	225,000	131,250
24 August 2010	24 August 2017	$0.95	50,000	-	-	-	50,000	29,167
1 October 2010	1 October 2017	$0.93	150,000	-	-	-	150,000	75,000
25 October 2010	25 October 2014	$1.24	25,000	-	-	-	25,000	12,500
8 November 2010	8 November 2017	$1.00	850,000	-	-	-	850,000	425,000
1 January 2011	1 January 2018	$1.40	1,330,000	-	-	(10,000)	1,320,000	660,000
1 January 2011	1 January 2015	$2.00	310,000	-	-	-	310,000	155,000
7 July 2011	7 July 2018	$1.70	-	150,000	-	-	150,000	-
28 September 2011	28 September 2018	$1.22	-	15,000	-	-	15,000	-
18 November 2011	18 November 2018	$1.60	-	250,000	-	-	250,000	-
23 January 2012	23 January 2019	$1.50	-	1,400,000	-	-	1,400,000	-
23 January 2012	23 January 2016	$2.15	-	300,000	-	-	300,000	-
1 April 2012	1 April 2019	$1.72	-	350,000	-	-	350,000	-
Total			10,580,032	2,465,000	(465,349)	(76,667)	12,503,016	8,299,921
Weighted average exercise price			$1.21	$1.63	$0.50	$1.63	$1.31	$1.24

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2013 was $1.07 (2012 – $1.59)

The weighted average remaining contractual life of the share options outstanding at the end of the period was 3.13 years. (2012 – 3.88 years)

Fair value of options granted
The assessed fair value at grant date of options granted during the year ended 30 June 2013 was $0.53 per option (2012 - $1.11). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2013 included:

(a) exercise price: $0.72 to $1.03 (2012 - $1.22 to $2.15)
(b) grant date: 7 November 2012, 19 February 2013 (2012 - 7 July 2011, 28 September 2011, 18 November 2011, 23 January 2012, 1 April 2012)

30 Share-based payments (continued)

(c) expiry date: 7 November 2016, 7 November 2019, 19 February 2020 (2012 - 7 July 2018, 28 September 2018, 18 November 2018, 23 January 2019, 23 January 2016, 1 April 2019)
(d) share price at grant date: $.72 to $0.94 (2012 - $1.22 to $1.85)
(e) expected price volatility of the Company's shares: 80% (2012 - 80%)
(f) expected dividend yield: nil% (2012 - nil%)
(g) risk-free interest rate: 3.08% (2012 – 4.09%)

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

(c) Expenses arising from share-based payment transactions

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

	2013	2012
	$'000	$'000
Options issued under employee option plan	**1,428**	2,162

31 Events occurring after the balance sheet date

The Company announced on 28 August 2013 that the United States Food and Drug Administration (FDA) had issued a Complete Response Letter (CRL) regarding the Company's MOXDUO New Drug Application (NDA) for the treatment of moderate to severe acute pain. The Company confirmed the issuance of the CRL was to allow time to submit and evaluate further information required for the FDA to fully consider the respiratory safety advantages of MOXDUO from Study 022.

With the issue of the CRL, in order to maintain FDA review, the Company is required to resubmit its NDA. The Company plans to complete its refiling in Q4 2013, inclusive of the additional information and analysis as requested by the FDA. The Company anticipates a new PDUFA (Prescription Drug User Fee Act) date in Q2 2014, preceded by an Advisory Committee meeting.

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