QRx Pharma

2011 ANNUAL REPORT

QRxPharma is a commercial-stage specialty pharmaceutical company focused on the development and commercialisation of new treatments for pain management and central nervous system (CNS) disorders.

Based on a development strategy that focuses on enhancing and expanding the clinical utility of currently marketed compounds, the Company's product portfolio includes both late and early stage clinical drug candidates with the potential for reduced risk, abbreviated development paths, and improved patient outcomes. The Company intends to co-promote its products in the U.S. and seek strategic partnerships for worldwide markets. QRxPharma's lead product candidate, immediate release MoxDuo, successfully completed pivotal Phase 3 studies and the Company has filed its New Drug Application (NDA) with the US Food and Drug Administration (FDA). Subject to approval, the company is now laying groundwork for commercialisation of MoxDuo IR and preparing for product launch in 2012. The Company's clinical pipeline includes an intravenous (IV) and continuous release (CR) formulation of MoxDuo, as well as other technologies in the fields of pain management, neurodegenerative disease and venomics.

QRxPHARMA LIMITED
ABN 16 102 254 151

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CORPORATE DIRECTORY

DIRECTORS

Peter C Farrell PhD, ScD, AM - ***Non-Executive Chairman***
John W Holaday PhD - ***Managing Director and Chief Executive Officer***
R Peter Campbell FCA, FTIA
Gary W Pace PhD
Michael A Quinn MBA

SECRETARY

Chris J Campbell CA

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

QRxPharma Limited
Level 1, 194 Miller St, North Sydney NSW 2060

SHARE REGISTER

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

AUDITOR

PricewaterhouseCoopers
Darling Park Tower 2, 201 Sussex Street, Sydney NSW 2000

SOLICITORS

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

STOCK EXCHANGE LISTINGS

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

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

WEBSITE ADDRESS

www.qrxpharma.com

KEY ACHIEVEMENTS

Q1 2011	MoxDuo IR Phase 3 Total Knee Replacement Study Results
Q1 2011	MoxDuo IR Pre-NDA Meeting with FDA
Q2 2011	MoxDuo IR Comparative Safety Study Results
Q2 2011	MoxDuo IR new patent issued by USPTO
JULY 2011	MoxDuo IR NDA Submission

UPCOMING OBJECTIVES:

Q4 2011	Strategic Partnership
Q4 2011	Filing of Comparative Safety Study Results as Update to Supplement NDA
Q1 2012	Finalise MoxDuo CR Formulation and Complete Phase 1 Trials
Q1 2012	Implement Plan to Bring MoxDuo IR to Market
MID-YEAR 2012	Submit Marketing Authorisation Application (MAA) in Europe for MoxDuo IR

LETTER FROM THE CHAIRMAN

Dear Shareholder,

On behalf of QRxPharma's Board and management, I am pleased to present our 2011 annual report.

This has been a banner year for QRxPharma. As we move towards commercialising MoxDuo IR in 2012, we continue to achieve milestones promised to the marketplace. All pivotal Phase 3 MoxDuo IR registration studies, as required by the US Food and Drug Administration (FDA), were successfully completed. We submitted the MoxDuo IR New Drug Application (NDA) for the treatment of moderate to severe acute pain to the FDA – a significant achievement for any therapeutics company. We believe our NDA is only the second filed with the FDA by a stand-alone Australian company over the past decade. This accomplishment represents the culmination of efficient scientific validation and prudent resource management by the Company.

In clinical trials with post-surgical patients experiencing moderate to severe post-surgical pain, the more than 700 patients who received MoxDuo IR consistently demonstrated significant analgesia and safety advantages over existing opioids that are current standards of care. Heretofore, there has not been a new opioid launched into the acute pain marketplace where direct comparisons with existing opioids have been made. We are now finalising plans for the launch of MoxDuo IR into the $2.5 billion US prescription opioids market for the treatment of moderate to severe acute pain in 2012, and anticipate regulatory approvals in Europe and Australia to follow a year later.

In addition to MoxDuo's established advantages over other opioids, we believe QRxPharma's commercial position has also been strengthened by recent FDA actions regarding paracetamol (acetaminophen)/opioid combination products which, due to concerns over the safety of paracetamol, must be removed from the market by January of 2014. This mandate affects over 100 million prescriptions per year in the US, including the most widely prescribed drug, Vicodin®. In addition, widespread abuse of Vicodin has prompted the US Congress to propose legislation to change the product's prescription category from Schedule 3 (more easily prescribed) to Schedule 2 with all other opioids (including MoxDuo). This confluence of events greatly increases the opportunity for MoxDuo IR as an advantaged product in a wide-open marketplace. I am extremely optimistic about the future as QRxPharma transitions from clinical stage to commercialisation.

This year we have also progressed other product lines to address pain from

LETTER FROM THE CHAIRMAN (CONTINUED)

hospital to home. MoxDuo CR, our continuous release Dual Opioid formulation, is designed to provide 12 hours of pain relief in patients with moderate to severe chronic pain. MoxDuo CR represents a significant market opportunity with over $5.6 billion spent annually on opioids in the US for the treatment of chronic pain. The improved tolerability profile of MoxDuo may make it a particularly strong offering for patients suffering from chronic disease as they are often saddled with managing an array of side effects from their medications.

In July 2011, we bolstered the Company's cash position, closing a significantly oversubscribed share placement of $25.0 million. We have also launched a non-renounceable rights issue which closes on 22 August 2011. We are grateful and encouraged by the ongoing support from our shareholders along with new institutional investors who joined the register via the placement. The Company intends to use the proceeds to advance MoxDuo IR through FDA approval and commercialisation as well as further the development of MoxDuo CR for which a number of Phase 1 and 2 studies have been planned. Furthermore, we are well-resourced to negotiate the best strategic partnership to augment our commercialisation strategy.

This is a transition year for the Company and I would like to take this opportunity to thank my fellow Board members, the management team, and the entire QRxPharma staff, in both Australia and the U.S.

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

Peter C Farrell, PhD, ScD, AM
Chairman

CEO REVIEW

In 2011, the QRxPharma team achieved one of the most significant milestones in drug development – completing a New Drug Application (NDA) filing for MoxDuo® IR capsules with the United States Food and Drug Administration (FDA). This is a very significant benchmark, especially considering the timeframe in which it was accomplished – just 4 years from the date of the Company's initial public offering (IPO). For making 2011 the most successful and productive year yet for our Company, it is the QRxPharma employees to whom I dedicate this Annual Report.

Since QRxPharma's IPO in 2007, we strived towards an aggressive commercialisation strategy for MoxDuo – one that streamlined development timelines, was capital efficient, demonstrated clinical advantages of the product, and set the stage for commercial benefits to the Company. With the NDA filing now under our belt, we have initiated the transition from a clinical stage company to a commercial enterprise, as we implement plans for MoxDuo IR's entry into the blockbuster global pain marketplace in 2012.

Pain is the most common reason people seek medical attention in the United States, and the treatment of it is a rapidly growing market, currently valued at over $14 billion worldwide. The acute pain market accounts for over $2.5 billion of the $8 billion spent annually on all prescription opioids in the US. Forecasts predict a significant rise in prescriptions for the treatment of acute and chronic pain due to a growing aging population and improved access to medical care.

MOXDUO IR

While individual opioids such as morphine and oxycodone presently remain the 'gold standard' for the treatment and management of pain, their use is significantly curtailed by debilitating side effects including nausea, vomiting, dizziness, sleepiness, constipation and respiratory depression.

In fact, the search for a pain therapy that delivers opioid-like efficacy without the commonly associated severe side effects has been likened to the quest for the "Holy Grail". I am pleased to announce that MoxDuo IR is the first opioid ever to demonstrate better pain relief and fewer side effects. In clinical trials, MoxDuo IR demonstrated significant clinical advantages over morphine, oxycodone and Percocet® (oxycodone plus paracetamol)– providing as good or better analgesia while, simultaneously, reducing the frequency and intensity of common side effects. I am particularly optimistic about the entry of QRxPharma into this burgeoning marketplace.

As agreed with the FDA earlier this year, the MoxDuo IR NDA filing was initiated with the lodgement of the Chemistry, Manufacturing and Controls (CMC) module in July 2011, closely followed by the clinical data package submission in August 2011 (including results from MoxDuo's successful Phase 3 clinical program). Typical NDA approvals require 10-12 months.

The NDA was submitted under 505(b)(2) regulations wherein approval for a new drug may be based in part on the historical published evidence supporting each of MoxDuo's already approved components to supplement the data derived from the robust QRxPharma development program. A 505(b)(2) approval also provides commercial benefits because, in parallel to patents which cover MoxDuo until 2029, it affords additional regulatory market exclusivity to the Company.

CEO REVIEW (CONTINUED)

Later this year, the Company will augment its NDA filing with additional safety information derived from the recently completed Study 022. This Phase 3 study compared the tolerability and safety profile of MoxDuo IR to equi-analgesic doses of either morphine or oxycodone alone. The primary endpoint was respiratory depression as measured by oxygen desaturations in the blood. Respiratory depression is the leading cause of death from high doses of opioids. Clinical data indicate that MoxDuo provides a significant safety benefit with less clinical respiratory risk than either morphine or oxycodone. No other opioid has ever demonstrated a lower incidence of respiratory depression while offering the same or better pain relief.

These findings reinforce MoxDuo's well-established safety profile with earlier trials demonstrating a 25% to 75% reduction in nausea, vomiting, dizziness, sleepiness and constipation compared to widely prescribed opioids. We also believe the significant respiratory advantages of MoxDuo IR demonstrated in Study 022 will be attractive to strategic partners, regulators and prescribers as well as support the European Marketing Authorisation Application (MAA) scheduled for submission in mid 2012.

MOXDUO CR

Following the NDA lodgement for our acute pain product, the QRxPharma clinical team shifted its focus to the development of MoxDuo CR, a continuous release formulation intended for twice daily dosing wherein each dose provides at least 12 hours of pain relief in patients with moderate to severe chronic pain including cancer, lower back, osteoarthritis and neuropathic pain. Chronic pain is the largest opioid market, with over $5.6 billion in US sales alone. Last year, QRxPharma prepared initial formulations of MoxDuo CR and conducted a successful Phase I study to determine which formulations provided the optimum duration of drug levels in blood. This provided critical information about the rate at which key components of the MoxDuo CR formulation were absorbed, distributed, metabolised and eliminated by the body compared to the pharmacokinetic profile of Oxycontin® 20 mg (sustained release oxycodone). The results were consistent with expectations for a twice-daily formulation.

During the coming year, the Company will accelerate the MoxDuo CR tablet development that encompasses sustained delivery technology as well as abuse deterrent and tamper resistant features. We have designed additional Phase 1 and 2 studies for submission to the FDA and will initiate our clinical trials in the coming year as we move MoxDuo CR towards NDA submission.

MOXDUO IV

Adding to the body of data demonstrating the superiority of Dual Opioids, the intravenous formulation (IV) was administered to patients following hip replacement, another form of moderate to severe post-surgical pain. Last year, the Company successfully completed a Phase 2 proof-of-concept study for MoxDuo IV which evaluated the efficacy and safety of intravenous morphine and oxycodone versus IV morphine alone. Compared to morphine, patients receiving IV morphine/oxycodone required less drug, achieved better pain relief and experienced fewer incidences of nausea and vomiting compared to IV morphine.

OTHER COLLABORATIONS

In addition to our pain management programs we have also continued development on our other pipeline programs including dystonia, Parkinson's Disease and Alzheimer's diseases. The Company continues to retain its interest in its strategic alliance with Liaoning Nuokang Medicines Co, the China based subsidiary of Nasdaq listed China Nuokang Biopharmaceuticals Inc (NASDAQ: NKBP), for the development and commercialisation of our venomics assets in China.

MOVING FORWARD

I am particularly excited with the progress made by the QRxPharma team over the past year with the support of our Board of Directors and Shareholders. As the Chairman reviewed, we just completed a significant capital raising to augment our ongoing clinical program with the MoxDuo product line and to give the Company a firm foundation as we continue our strategic partnering dialogue. The addition of a partnership to reinforce a substantial enterprise value should bode well for shareholders in the coming year.

I look forward to a transformative year ahead as the Company transitions from a clinical stage entity to a commercial Company, and I thank you, the shareholders, for your continued support of QRxPharma.

John W Holaday, PhD
Managing Director and Chief Executive Officer

WHAT KEY OPINION LEADERS ARE SAYING:

ON CURRENT PAIN THERAPIES...

"Sometimes, [Patients] don't like how they feel. They feel too sleepy. There's a lot of constipation. And nausea."

Primary Care Physician, Houston

"There's a balance between efficacy and side effects that's pretty good but not perfect. [We] can treat pain but too often the side effects limit us. Wish we had something with a lower potential for unfavorable side effects."

Pain Specialist, San Francisco

"The side effects. We are used to them but it's a hassle. What we want is a more potent drug that is better tolerated. Fewer problems. Focus on the pain. Treat quickly. Rapid onset without all the side effects. The loopiness. The nausea."

Primary Care Physician, San Francisco

ON MOXDUO IR...

"I think this is great. Very interesting concept. Very positive efficacy and tolerability. [MoxDuo IR] has much better GI side effects than Percocet®."

Primary Care Physician, Houston

"This is good. Really good. It would replace everything."

Primary Care Physician, Boston

"It's a drastically better choice. It's drastically safer."

Anesthesiologist, LA

"It [MoxDuo IR] is a paradigm shift. A game changer. It is a way better version of all the existing drugs."

Anesthesiologist, LA

Disclaimer: This KOL research was conducted after results of the Combination Rule and 021 studies. Product profile presented the 50% - 75% reductions in AEs seen in the 021 trial as well as tolerability profile in Phase 3 combination rule study.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of QRxPharma Limited (referred to hereafter as the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2011.

DIRECTORS

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

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

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Group consisted of the development and commercialisation of biopharmaceutical products based upon early research in Australia and clinical research in the United States, targeting the North American, European, China and Australian Markets.

DIVIDENDS QRXPHARMA LIMITED

No dividends were paid or declared since the start of the financial year (2010: $nil).

REVIEW OF OPERATIONS

The Group has made a loss from continuing operations after income tax for the year of $25.6 million (2010: loss of $27.5 million). The loss was in line with the expectations of the board of directors and resulted from fulfilling research and development activities in the progression of the Company's clinical pipeline candidates and preclinical stage drugs.

Further information on the operations and financial position of the Group and its business strategies and prospects is set out on pages 5-7 of this annual report.

LOSS PER SHARE

	2011 Cents	2010 Cents
(a) Basic loss per share Loss from continuing operations attributable to the ordinary equity holders of the company	**(21.7)**	(30.3)
(b) Diluted loss per share Loss from continuing operations attributable to the ordinary equity holders of the company	**(21.7)**	(30.3)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

DIRECTORS' REPORT
(CONTINUED)

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

In July 2011, the Company conducted a share placement of 17,241,379 shares at an issue price of $1.45, raising gross proceeds of $25 million. A non-renounceable rights issue with a ratio of 1 new share for every 20 existing shares, at an issue price of $1.45, having the potential to raise a further $10.4 million if fully subscribed, opened on 8 August with a closing date of 22 August 2011.

On 18 July 2011 the Company announced the achievement of a significant milestone with the initiation of the filing of its New Drug Application for MoxDuo®IR with the United States Food and Drug Administration.

No other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

ENVIRONMENTAL REGULATION

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

INFORMATION ON DIRECTORS

PETER C FARRELL PhD, ScD, AM.

Non-Executive Chairman.

Experience and expertise

Dr Farrell has over 35 years executive and consulting experience in the medical device industry.

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

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

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

Former directorships in last 3 years
Pharmaxis Limited (ASX: PXS) from March 2006 to October 2009.

Special responsibilities
Chairman of the board.
Chairman of nominations committee.
Chairman of remuneration committee.

Interests in shares and options
1,815,540 ordinary shares and 754,089 options over ordinary shares.

JOHN W HOLADAY PhD.
Managing Director and Chief Executive Officer.

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

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

Other current directorships
Neuren Pharmaceuticals Ltd (ASX: NEU) (director since November 2009).

Former directorships in last 3 years
Nil

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

Interests in shares and options
7,609,635 ordinary shares (including ordinary shares held by John Holaday and John Holaday as trustee for the John Holaday Foundation) and 1,355,452 options over ordinary shares.

R PETER CAMPBELL FCA, FTIA.
Non-Executive Director.

Experience and expertise
Mr Campbell is a Chartered Accountant and company director with more than 40 years of business consulting and advisory experience, and operates his own chartered accountancy practice based in Sydney. He is a Fellow of both the Institute of Chartered Accountants in Australia and the Taxation Institute of Australia and is a registered company auditor.

Other current directorships
Chairman of Silex Systems Limited (ASX: SLX) (director since July 1996) and Chairman of Sonic Healthcare Limited (ASX: SHL) (director since January 1993).

Former directorships in last 3 years
Admerex Limited (ASX: ADL) from January 2007 to October 2008.

Special responsibilities
Chairman of audit committee.
Member of nominations committee.

Interests in shares and options
174,647 ordinary shares and 391,635 options over ordinary shares.

GARY W PACE PhD.
Non-Executive Director and Consultant.

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

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

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

Other current directorships
Director of ResMed Inc (ASX and NYSE: RMD) (director since 1995), Transition Therapeutics Inc (TSX and NASDAQ: TTH) (director since 2002), Pacira Pharmaceuticals (NASDAQ: PCRX) (director since 2009).

Former directorships in last 3 years
Celsion Corp (NASDAQ: CLSN) (2002 – August 2010) and Peplin Limited (ASX: PEP) (2004 – December 2009).

Special responsibilities
Nil

Interests in shares and options
3,493,833 ordinary shares and 552,726 options over ordinary shares.

MICHAEL A QUINN MBA.
Non-Executive Director.

Experience and expertise
Mr Quinn is managing partner of Innovation Capital and has more than 35 years executive experience in technology companies in Australia, the US and the UK. Mr Quinn holds a Bachelor of Science, a Bachelor of Economics, and an MBA from Harvard. Mr Quinn is Chairman of the New South Wales Entrepreneurship Centre Limited, a not-for-profit organisation that trains entrepreneurs. In 1983 he co founded Memtec Limited (NYSE and ASX), and has also served as Chief Executive Officer of an ASX listed manufacturer and distributor of health care and scientific products. Mr Quinn has been a Director of several listed companies in Australia, the US and the UK and numerous unlisted life science and other technology based companies.

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

Former directorships in last 3 years
Nil.

Special responsibilities
Member of nominations committee.
Member of audit committee.
Member of remuneration committee.

Interests in shares and options
8,489,662 ordinary shares (including ordinary shares held by Innovation Capital Limited, Innovation Capital LLC and Kaylara Pty Limited). 552,726 options over ordinary shares (including options held by Innovation Capital Limited and Innovation Capital LLC).

COMPANY SECRETARY

Chris J Campbell holds a Bachelor of Commerce and is an Associate of the Institute of Chartered Accountants in Australia. He also holds the position of Chief Financial Officer of QRxPharma Limited. He has over 30 years' experience with major accounting firms and as Chief Financial Officer of publicly traded companies.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2011, and the numbers of meetings attended by each director were:

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

A = Number of meetings attended

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

* = Not a non-executive director

** = Not a member of the relevant committee

REMUNERATION REPORT

This remuneration report sets out remuneration for QRxPharma Limited's non-executive directors, executive directors, other key management personnel and the five highest remunerated executives of the Group and the Company.

Principles used to determine the nature and amount of remuneration

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

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

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

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

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

Non-executive directors

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

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

Executive pay

The executive pay and reward framework has three components:

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

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

Base pay and benefits

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

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

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

Executives receive benefits including health insurance and tax advisory services.

Superannuation

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

Short-term incentives

A variable cash incentive component is payable annually dependent upon achievement of performance targets. Individual performance targets are set by reference to components of the Group's business plan for which the individual executive is responsible. Maximum available bonuses vary from 30% of base pay to a fixed amount of USD 150,000.

Each executive has a target short-term incentive opportunity depending on the accountabilities of the role and impact on the organisation. Each year, the remuneration committee considers the appropriate targets and key performance indicators (KPIs) for each executive. For the year ended 30 June 2011, the KPIs were based on meeting group and individual milestone achievements.

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

Long-term incentives

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

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

DETAILS OF REMUNERATION

Amounts of remuneration

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

The key management personnel of QRxPharma Limited and the Group includes the directors as per pages 10 to 12 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the Group, who also include the 5 highest paid executives of the entity:

- Chris J Campbell – Chief Financial Officer and Company Secretary
- Philip J Magistro – Chief Commercial Officer
- Patricia T Richards, MD – Chief Medical Officer
- M Janette Dixon – Vice President Global Business Development
- Richard A Paul, MD – Executive Vice President Drug Development
- Warren C Stern, PhD – Clinical Consultant

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

	SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT BENEFITS		LONG-TERM BENEFITS	SHARE-BASED PAYMENTS	
2011	Cash salary and fees	Cash bonus	Non-monetary benefits	Other	Super-annuation	Retirement benefits	Long service leave	Options	Total
Name	$	$	$	$	$	$	$	$	$
Non-executive directors									
Peter C Farrell	60,000	-	-	-	-	-	-	50,321	110,321
R Peter Campbell	40,000	-	-	-	3,600	-	-	50,321	93,921
Michael A Quinn	40,000	-	-	-	-	-	-	50,321	90,321
Gary W Pace	40,000	-	-	-	-	-	-	50,321	90,321
Sub-total non-executive directors	180,000	-	-	-	3,600	-	-	201,284	384,884
Executive directors									
John W Holaday	342,957	148,634	-	-	-	-	-	182,323	673,914
Other key management personnel (Group)									
Warren C Stern ^ °	230,510	100,614	-	-	-	-	-	92,381	423,505
Chris J Campbell ^	210,734	105,000	-	-	26,053	-	-	77,207	418,994
Philip J Magistro ^	283,710	141,752	-	-	-	-	-	88,393	513,855
Patricia T Richards ^	299,187	87,768	-	-	-	-	-	94,590	481,545
M. Janette Dixon ^ *	270,389	153,918	-	-	-	-	-	122,483	546,790
Richard A Paul~ (from 15 November 2010)	196,757	50,753	-	-	-	-	-	90,166	337,676
Total key management personnel compensation (Group)	**2,014,244**	**788,439**	**-**	**-**	**29,653**	**-**	**-**	**948,827**	**3,781,163**

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

° Warren Stern resigned as an employee of the Group effective 31 March 2011. He was subsequently engaged from 1 April 2011 as a consultant for which he was paid $93,513 for consulting services provided to the Group, in addition to the amount above.

* Fees and bonus payments were made to M Janette Dixon pursuant to consultancy agreements held with BioComm Pacific Limited.

~ Richard A Paul joined the Group on 15 November 2010. He assumed the position of Executive Vice President Drug Development on 1 April 2011.

Gary Pace was paid $82,699 for consulting services provided to the Company during the year in addition to the amount above.

Key management personnel and other executives of QRxPharma Limited and the Group were the same in 2010

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

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

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

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

Key management personnel and other executives of the Group

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

	FIXED REMUNERATION		AT RISK–STI		AT RISK–LTI	
Name	**2011**	2010	**2011**	2010	**2011**	2010
Directors of QRxPharma Limited						
John W Holaday	**51%**	50%	**22%**	22%	**27%**	28%
Peter C Farrell	**54%**	50%	**-**	-	**46%**	50%
R Peter Campbell	**46%**	65%	**-**	-	**54%**	35%
Michael A Quinn	**44%**	50%	**-**	-	**56%**	50%
Gary W Pace	**44%**	46%	**-**	-	**56%**	54%
Other key management personnel of the Group						
Warren C Stern	**54%**	55%	**24%**	21%	**22%**	24%
Chris J Campbell	**55%**	60%	**27%**	27%	**18%**	13%
Philip J Magistro	**55%**	81%	**28%**	7%	**17%**	12%
Patricia T Richards	**62%**	67%	**18%**	17%	**20%**	16%
M. Janette Dixon	**50%**	65%	**28%**	13%	**22%**	22%
Richard A Paul (from 15 November 2010)	**58%**	-	**15%**	-	**27%**	-

Since the long term incentives are provided exclusively by way of options, the percentages disclosed also reflect the value of the remuneration consisting of options, based on the value of options expensed during the year.

SERVICE AGREEMENTS

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

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

John W Holaday, Managing Director and Chief Executive Officer

- Term of agreement–3 years (with annual extension) renegotiated from 20 February 2009.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2011 of US$350,000, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the annual base salary and a bonus component of US$150,000.

Chris J Campbell, Chief Financial Officer

- Term of agreement–ongoing, commencing 1 March 2007.
- Base salary, inclusive of superannuation, for the year ended 30 June 2011 of $232,523, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination without notice by the Company, other than for gross misconduct, equal to three months' salary.
- Contract can be terminated by either party with three months' notice.

Philip J Magistro, Chief Commercial Officer

- Term of agreement – ongoing, commencing 26 November 2007
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2011 of US$283,250, to be reviewed annually by the remuneration committee.
- Agreement can be terminated by either party with one month's notice.

Patricia T Richards, Chief Medical Officer

- Term of agreement - ongoing, commencing 18 February 2009
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2011 of US$298,700, to be reviewed annually by the remuneration committee.
- Agreement can be terminated by either party with one month's notice.

M. Janette Dixon, Vice President Global Business Development

- Term of agreement – ongoing, commencing 17 August 2009 with QRxPharma Limited, and 1 October 2009 with Venomics Pty Limited. Agreements are held with Janette Dixon as the principal of Biocomm Pacific Limited.
- Base consulting fee for the contract with QRxPharma Limited for the year ended 30 June 2011 of US$225,000 per annum (pro rata).
- Base consulting fee for the contract with Venomics Pty Limited for the year ended 30 June 2011 of US$50,000 per annum (pro rata).
- Each agreement can be terminated by either party with two months' notice.

Richard A Paul, Executive Vice President Drug Development

- Term of agreement – commenced 15 November 2010 for 1 year and 6 months to 15 May 2012.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2011 of US$287,000, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 6 months base salary.

Warren C Stern, Clinical Consultant

- Term of agreement – commenced on 1 April 2011 for 2 years and 4 months to 30 July 2013 unless extended by mutual agreement.
- Base consulting fee is US$275 per hour with anticipated billing of between 500 to 1,000 hours per annum.
- Agreement can be terminated by either party with one month's notice.
- No termination benefit payable on early termination by the Company.

Gary W Pace, Non-Executive Director, Consultant

- Term of agreement-1 year, renegotiated from 25 May 2011.
- Base consulting fee for the contract year ending 25 May 2011 of US$83,000 per annum (pro rata).
- Agreement can be terminated by either party with one month's notice.
- No termination benefit payable on early termination by the Company.

SHARE BASED COMPENSATION

Options

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

The maximum number of options available to be issued under the ESOP is 10% of diluted ordinary share capital in the Company as at the date of issue of the relevant options.

SHARE BASED COMPENSATION (continued)

All employees and directors are eligible to participate in the ESOP, but do so at the invitation of the Remuneration Committee. The terms of option issues are determined by the Remuneration Committee.

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

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

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

Grant date	Vested and exercisable	Expiry date	Exercise price	Value per option at grant date	% Vested
31 March 2007	Over 3 years	31 March 2014	$1.42	$1.31	100%
14 April 2007	Over 3 years	14 April 2014	$1.00	$1.46	100%
25 May 2007	Over 3 years	25 May 2014	$1.00	$1.46	100%
25 May 2007	Over 3 years	25 May 2014	$2.00	$1.15	100%
1 September 2007	Over 3 years	1 September 2014	$1.70	$0.98	100%
1 October 2007	Over 3 years	1 October 2014	$1.45	$0.83	100%
9 October 2007	Over 3 years	9 October 2014	$1.34	$0.77	100%
1 January 2008	Over 3 years	1 January 2015	$1.11	$0.64	100%
1 April 2008	Over 3 years	1 April 2015	$1.05	$0.60	100%
1 April 2008	Over 3 years	1 April 2015	$1.04	$0.60	100%
1 October 2008	Over 3 years	1 October 2015	$0.60	$0.24	92%
4 November 2008	Over 6 months	4 November 2015	$0.37	$0.07	100%
1 January 2009	Over 6 months	1 January 2016	$0.20	$0.10	83%
1 January 2009	Over 3 years	1 January 2016	$0.20	$0.10	100%
31 August 2009	Over 3 years	31 August 2016	$0.65	$0.44	58%
1 October 2009	Over 3 years	1 October 2016	$0.90	$0.61	58%
16 November 2009	Over 3 years	16 November 2016	$1.12	$0.76	50%
1 January 2010	Over 3 years	1 January 2017	$0.78	$0.53	50%
17 February 2010	Over 3 years	17 February 2017	$0.84	$0.57	42%
24 March 2010	Over 3 years	24 March 2014	$1.26	$0.38	42%
1 July 2010	Over 3 years	1 July 2017	$1.15	$0.88	33%
24 August 2010	Over 3 years	24 August 2017	$0.95	$0.72	0%
1 October 2010	Over 3 years	1 October 2017	$0.93	$0.71	0%
25 October 2010	Over 3 years	25 October 2014	$1.24	$0.48	0%
8 November 2010	Over 3 years	8 November 2017	$1.00	$0.75	0%
1 January 2011	Over 3 years	1 January 2018	$1.40	$1.07	0%
1 January 2011	Over 3 years	1 January 2015	$2.00	$0.77	0%

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

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

	Number of options granted during the year	Value of options at grant date* $	Number of options vested during the year	Number of options lapsed during the year	Value at lapse date** $
Directors of QRxPharma Limited					
Peter C Farrell	150,000	112,500	-	-	-
R Peter Campbell	150,000	112,500	-	-	-
Michael A Quinn	150,000	112,500	-	-	-
Gary W Pace	150,000	112,500	-	-	-
John W Holaday	250,000	187,500	150,000	-	-
Other key management personnel					
Warren C Stern	150,000	106,500	88,542	-	-
Chris J Campbell	162,500	125,125	87,500	-	-
Philip J Magistro	125,000	133,750	145,833	-	-
Patricia T Richards	100,000	107,000	245,833	-	-
M. Janette Dixon	150,000	160,500	187,500	-	-
Richard A Paul (from 15 November 2010)	250,000	267,500	-	-	-

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

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

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

SHARE BASED COMPENSATION (continued)

Shares provided on exercise of remuneration options

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

	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year	Value at exercise date* $
Directors of QRxPharma Limited			
Peter C Farrell	-	-	-
R Peter Campbell	-	-	-
Michael A Quinn	-	-	-
Gary W Pace	-	-	-
John W Holaday	-	-	-
Other key management personnel			
Warren C Stern	-	-	-
Chris J Campbell	-	-	-
Philip J Magistro	-	-	-
Patricia T Richards	4 November 2010	45,000	27,450
M. Janette Dixon	-	-	-
Richard A Paul (from 15 November 2010)	-	-	-

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

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

Exercise date	***Amount paid per share***
4 November 2010	*$0.20*
4 November 2010	*$0.65*

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

Details of remuneration: Bonuses and share-based compensation benefits

For each cash bonus and grant of options included in the tables on pages 15, 16 and 19, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonus is payable in future years. The vesting period for each option issued up to 31 December 2008 is 3 years, or as varied by the board, one third vesting 12 months from the date of grant and the balance vesting equally each year over the remaining two year period. Options issued from 1 January 2009 generally vest over 3 years with the initial vesting on the first anniversary of the date of the grant and subsequent vestings in 8 equal tranches on the first day of each calendar quarter over the following 2 years. No options will vest if the conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

	BONUS		SHARE-BASED COMPENSATION BENEFITS (OPTIONS)				
Name	Paid %	Forfeited %	Year Granted	Vested %	Forfeited %	Financial years in which options may vest	Maximum total value of grant yet to vest $
Directors of QRxPharma Limited							
Peter C Farrell	-	-	2011	-	-	2012- 2014	150,000
			2007	100%	-	-	-
R Peter Campbell	-	-	2011	-	-	2012- 2014	150,000
			2007	100%	-	-	-
Michael A Quinn	-	-	2011	-	-	2012- 2014	150,000
			2007	100%	-	-	-
Gary W Pace	-	-	2011	-	-	2012- 2014	150,000
			2007	100%	-	-	-
John W Holaday	100%	-	2011	-	-	2012- 2014	250,000
			2010	50%	-	2011 - 2013	168,000
			2007	100%	-	-	-
Other key management personnel							
Warren C Stern	100%	-	2011	-	-	2012- 2014	139,500
		-	2010	42%	-	2011 - 2013	49,000
		-	2010	58%	-	2011 - 2013	10,156
		-	2009	83%	-	2010 - 2012	1,500
		-	2007	100%	-	-	-
Chris J Campbell	100%	-	2011	-	-	2012 - 2014	325,000
		-	2010	83%	-	2011 - 2013	110,250
		-	2009	42%	-	2010 - 2012	1,667
		-	2007	100%	-	-	-
Philip J Magistro	100%	-	2011	-	-	2012 - 2014	175,000
		-	2010	42%	-	2011 - 2013	49,000
		-	2010	58%	-	2011 - 2013	8,125
		-	2009	83%	-	2010 - 2012	2,000
		-	2008	100%	-	-	-
Patricia T Richards	100%	-	2011	-	-	2012 - 2014	140,000
		-	2010	42%	-	2011 - 2013	49,000
		-	2010	58%	-	2011 - 2013	5,417
		-	2009	83%	-	2010 - 2012	833
		-	2008	100%	-	-	-
M. Janette Dixon (from 23 September 2009)	100%	-	2011	-	-	2012 - 2014	210,000
		-	2010	42%	-	2011 - 2013	49,000
		-	2010	58%	-	2011 - 2013	67,708
		-	2009	100%	-	-	-
Richard A Paul (from 15 November 2010)	100%	-	2011	-	-	2012 - 2014	267,500

SHARE BASED COMPENSATION (continued)

Shares under option

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

DATE OPTIONS GRANTED	EXPIRY DATE	ISSUE PRICE OF SHARES	NUMBER UNDER OPTION
31 March 2007	31 March 2014	$1.42	402,726
14 April 2007	14 April 2014	$1.00	2,013,630
25 May 2007	25 May 2014	$1.00	502,726
25 May 2007	25 May 2014	$2.00	1,448,450
1 September 2007	1 September 2014	$1.70	50,000
1 October 2007	1 October 2014	$1.45	75,000
9 October 2007	9 October 2014	$1.34	50,000
1 January 2008	1 January 2015	$1.11	200,000
1 April 2008	1 April 2015	$1.04	75,000
1 April 2008	1 April 2015	$1.05	600,000
1 October 2008	1 October 2015	$0.60	50,000
1 January 2009	1 January 2016	$0.20	295,000
31 August 2009	31 August 2016	$0.65	467,500
1 October 2009	1 October 2016	$0.90	150,000
16 November 2009	16 November 2016	$1.12	300,000
1 January 2010	1 January 2017	$0.78	100,000
17 February 2010	17 February 2017	$0.84	565,000
24 March 2010	24 March 2014	$1.26	295,000
1 July 2010	1 July 2017	$1.15	225,000
24 August 2010	24 August 2017	$0.95	50,000
1 October 2010	1 October 2017	$0.93	150,000
25 October 2010	25 October 2014	$1.24	25,000
8 November 2010	8 November 2017	$1.00	850,000
1 January 2011	1 January 2018	$1.40	1,330,000
1 January 2011	1 January 2015	$2.00	310,000
			10,580,032

Shares issued on the exercise of options

The following ordinary shares of QRxPharma Limited were issued during the year ended 30 June 2011 on the exercise of options granted under the QRxPharma Limited Employee Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
25 May 2007	$1.00	50,000
1 January 2009	$0.20	35,000
31 August 2009	$0.65	10,000
		95,000

INDEMNIFICATION

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

INSURANCE OF OFFICERS

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

NON-AUDIT SERVICES

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

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

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

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

	2011	2010
	$	$
(a) PricewaterhouseCoopers Australia		
Other assurance services		
Accounting Advisory Services	-	16,200
Total remuneration for other assurance services	-	16,200
Taxation services		
Tax compliance services	8,000	4,660
Tax consulting and tax advice	25,280	26,100
Total remuneration for taxation services	33,280	30,760
(b) Related practices of PricewaterhouseCoopers Australia		
Taxation services		
Tax compliance services	35,022	37,025
International tax consulting and tax advice	42,336	-
Total remuneration for taxation services	77,358	37,025
Total remuneration for non-audit services	110,638	83,985

DIRECTORS' REPORT
(CONTINUED)

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 25.

ROUNDING OF AMOUNTS

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

AUDITOR

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

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

Peter C Farrell
Director

Sydney
18 August 2011

pwc

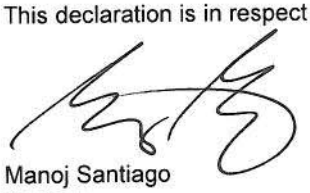
Auditor's Independence Declaration

As lead auditor for the audit of QRxPharma Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



Manoj Santiago
Partner
PricewaterhouseCoopers

Sydney
18 August 2011

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CORPORATE GOVERNANCE STATEMENT

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

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. They comply with the ASX Corporate Governance Principles and Recommendations (including 2010 Amendments).

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

The responsibilities of the board include:

- *providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy*
- *reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives*
- *overseeing and monitoring:*
  - *organisational performance and the achievement of the Group's strategic goals and objectives*
  - *compliance with the Company's Code of conduct*
  - *progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments*
- *monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors*
- *appointment, performance assessment and, if necessary, removal of the managing director*
- *ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the Chief Executive Officer (CEO) and the Company Secretary*
- *ensuring there are effective management processes in place and approving major corporate initiatives*
- *enhancing and protecting the reputation of the organisation*
- *overseeing the operation of the Group's system for compliance and risk management reporting to shareholders*
- *ensuring appropriate resources are available to senior management*

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

A performance assessment for senior executives last took place in July 2011 during the remuneration committee's annual assessment of performance bonuses. To help make this assessment, the committee receives detailed reports on performance from management.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

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

Board composition

The charter states:

- *the board is to be comprised of both executive and non-executive directors with a majority of non-executive directors. Non-executive directors bring a fresh perspective to the board's consideration of strategic, risk and performance matters*
- *in recognition of the importance of independent views and the board's role in supervising the activities of management, the Chair must be an independent non-executive director, the majority of the board must be independent of management and all directors are required to exercise independent judgement and review and constructively challenge the performance of management*
- *the Chair is elected by the full board and is required to meet regularly with the managing director*
- *the Company aims to maintain a mix of directors on the board from different genders, age groups, ethnicity and cultural and professional backgrounds who have complementary skills and experience*
- *the board is to establish measurable board gender diversity objectives and assess annually the objectives and progress in achieving them*
- *the board is required to undertake an annual board performance review and consider the appropriate mix of skills required by the board to maximise its effectiveness and its contribution to the Group.*

The board seeks to ensure that:

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

Directors' independence

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

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

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

The board regularly assesses director independence having regard to the criteria outlined in the Principles. To enable this process, the directors must provide all information that may be relevant to the assessment. During the financial year ended 30 June 2011, three non-executive directors; Peter C Farrell, R Peter Campbell and Gary W Pace were considered to be independent.

Board members

Details of the members of the board, their experience, expertise, qualifications, term of office, relationships affecting their independence and their independent status are set out in the directors' report under the heading "Information on directors" on pages 10 to 12. At the date of signing the directors' report, there is one executive director and four non-executive directors.

Non executive directors

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

Term of office

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

Chair

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

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

Chief Executive Officer (CEO)

The CEO is responsible for implementing Group strategies and policies.

Commitment

The number of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2011, and the number of meetings attended by each director is disclosed on page 13.

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

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

Independent professional advice

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

Avoidance of conflict of interest

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

Performance assessment

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

Board committees

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

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

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

Nominations committee

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

Details of these directors' attendance at nomination committee meetings are set out in the directors' report on page 13.

The main responsibilities of the committee include:

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

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

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

The Company has adopted a statement of values and a Code of conduct (the Code) on 17 August 2011 which has been fully endorsed by the board and applies to all directors and employees. It is intended that the Code be regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity and to take into account legal obligations and reasonable expectations of the Company's stakeholders.

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

The Company maintains a Securities Trading Policy, which was amended on 31 December 2010, and is available on the Company website. It is contrary to the Company's policy for directors, officers and employees to be engaged in short term trading of the Company's securities. All directors, officers and employees are prohibited from dealing in any QRxPharma Limited securities, except while not in possession of unpublished price sensitive information. Directors, officers and employees may only then deal in the Company's securities during a specified period of 45 days after the release of the Company's half-yearly or annual results, after release of the Company's Appendix 4C quarterly report for the quarter ended 31 March, after the AGM, or during the period in which the Company has a prospectus or other disclosure documents on issue under which people can subscribe for securities. Directors must obtain the approval of the Chairman and employees the approval of the Company Secretary prior to dealing in the Company's securities outside those periods.

The directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

Diversity Policy

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly the Company adopted a diversity policy on 17 August 2011. This policy outlines the establishment of the Company's diversity objectives in relation to gender, age, cultural background and ethnicity. It includes requirements for the board to establish measurable objectives for achieving diversity, and for the board to assess annually both the objectives, and the Company's progress in achieving them.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and risk committee

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

Details of these directors' qualifications and attendance at audit committee meetings are set out in the directors' report on pages 10 to 13.

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

The audit and risk committee operates in accordance with a charter which is available on the Company website. The main responsibilities of the committee include:

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

In fulfilling its responsibilities, the audit and risk committee:

- *receives regular reports from management and external auditors*
- *meets with the external auditors at least twice a year, or more frequently if necessary*

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- *reviews the process the CEO and CFO have in place to support their certificates to the board*
- *reviews any significant disagreements between the auditor and management, irrespective of whether they have been resolved*
- *meets separately with the external auditors at least twice a year without the presence of management*
- *provides the external auditors with a clear line of direct communication at any time to either the Chair of the audit and risk committe or the Chair of the baord*

External auditors

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

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

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

PRINCIPLES 5 AND 6: MAKE TIMELY AND BALANCED DISCLOSURES AND RESPECT THE RIGHTS OF SHAREHOLDERS

Continuous disclosure and shareholder communication

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

- *ensuring that shareholders and the financial markets are provided with timely disclosure about its activities*
- *fully complying with continuous disclosure obligations contained in applicable ASX listing rules and the Corporations Act*
- *ensuring that all investors have equal and timely access to material information concerning the Group.*

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

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

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

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound system of risk management

and internal control. Detailed work on this task is delegated to the audit and risk committee and reviewed by the full board as detailed in the Risk Management Policy adopted by the Company on 17 August 2011. The audit and risk committee is responsible for ensuring there is an adequate framework in relation to risk management, compliance and internal control systems. In providing this oversight, the committee:

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

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

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

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

Corporate Reporting

In complying with recommendation 7.3, the CEO and Chief Financial Officer (CFO) have provided the following written declarations in accordance with section 295A of the Corporations Act.

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

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration Committee

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

The remuneration committee's composition does not comply with the Principles in that it does not have a majority of independent directors. The board considers that the remuneration committee as represented by an independent non-executive director, a non-executive director and the Managing Director as noted above is suitably structured and qualified to fully discharge its responsibilities at this stage of the Company's development.

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report on page 13.

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

The main responsibilities of the committee include:

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

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

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

FINANCIAL REPORT

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

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

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

A description of the nature of the consolidated entity's operations and its principal activities is included in the CEO's review on pages 5 to 7 and in the directors' report on pages 9 to 24, both of which are not part of these financial statements.

The financial statements were authorised for issue by the directors on 17 August 2011. The directors have the power to amend and reissue the financial statements.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011.

	Notes	2011 $'000	2010 $'000
Revenue from continuing operations	5	**177**	261
Other income	6	**748**	405
Research and development	7	**(15,008)**	(18,006)
Employee benefits expense	7	**(5,827)**	(6,081)
Depreciation and amortisation	7	**(66)**	(65)
Business development		**(1,651)**	(1,131)
Other expenses		**(1,918)**	(2,383)
Net foreign exchange (loss)	7	**(2,090)**	(474)
Loss before income tax		**(25,635)**	(27,474)
Income tax benefit	8	**-**	-
Loss from continuing operations		**(25,635)**	(27,474)
Loss for the year		**(25,635)**	(27,474)
Other comprehensive (loss)			
Exchange differences on translation of foreign operations		**(48)**	(172)
Other comprehensive (loss) for the year, net of tax		**(48)**	(172)
Total comprehensive (loss) for the year		**(25,683)**	(27,646)
Loss for the year is attributable to:			
Owners of QRxPharma Limited		**(25,573)**	(27,348)
Non-controlling interests		**(62)**	(126)
		(25,635)	(27,474)
Total comprehensive (loss) is attributable to:			
Owners of QRxPharma Limited		**(25,621)**	(27,520)
Non-controlling interests		**(62)**	(126)
		(25,683)	(27,646)

Earnings per share for loss attributable to the ordinary equity holders of the company:

		Cents	Cents
Basic loss per share	26	**(21.7)**	(30.3)
Diluted loss per share	26	**(21.7)**	(30.3)

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

CONSOLIDATED BALANCE SHEET

As at 30 June 2011.	Notes	2011 $'000	2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	**7,291**	12,760
Trade and other receivables	10	**60**	76
Other current assets	11	**295**	390
Total current assets		**7,646**	13,226
Non-current assets			
Available-for-sale financial assets	12	**407**	407
Property, plant and equipment	13	**196**	240
Intangible assets	14	**-**	-
Total non-current assets		**603**	647
Total assets		**8,249**	13,873
LIABILITIES			
Current liabilities			
Trade and other payables	15	**1,722**	2,094
Total current liabilities		**1,722**	2,094
Total liabilities		**1,722**	2,094
Net assets		**6,527**	11,779
EQUITY			
Contributed equity	16	**118,809**	99,969
Reserves	17(a)	**9,025**	7,489
Accumulated losses	17(b)	**(121,357)**	(95,784)
Non-controlling interests	18	**50**	105
Total equity		**6,527**	11,779

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011.	ATTRIBUTABLE TO THE OWNERS OF QRXPHARMA LIMITED					
	Contributed equity	Reserves	Retained earnings	Total	Non-controlling interests	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2009	79,694	5,737	(68,436)	16,995	-	16,995
Total comprehensive loss for the year	-	**(172)**	**(27,348)**	**(27,520)**	**(126)**	**(27,646)**
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	20,275	-	-	20,275	-	20,275
Employee share scheme	-	1,461	-	1,461	116	1,577
Transactions with non-controlling interest reserve	-	463	-	463	115	578
	20,275	1,752	(27,348)	(5,321)	105	(5,216)
Balance at 30 June 2010	**99,969**	**7,489**	**(95,784)**	**11,674**	**105**	**11,779**
Total comprehensive loss for the year	-	**(48)**	**(25,573)**	**(25,621)**	**(62)**	**(25,683)**
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	18,840	-	-	18,840	-	18,840
Employee share scheme	-	1,591	-	1,591	-	1,591
Transactions with non-controlling interest reserve	-	(7)	-	(7)	7	-
	18,840	1,536	(25,573)	(5,197)	(55)	(5,252)
Balance at 30 June 2011	**118,809**	**9,025**	**(121,357)**	**6,477**	**50**	**6,527**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2011.

	Notes	2011 $'000	2010 $'000
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		(23,114)	(25,635)
Interest received		169	274
Grant received	6	748	-
Net cash (outflow) from operating activities	25	(22,197)	(25,361)
Cash flows from investing activities			
Proceeds from sale of shares in subsidiaries	24	-	578
Payments for property, plant and equipment		(22)	(31)
Net cash (outflow) / inflow from investing activities		(22)	547
Cash flows from financing activities			
Proceeds from issue of shares	16	19,830	21,725
Payments made in relation to capital raising	16	(990)	(1,450)
Net cash inflow from financing activities		18,840	20,275
Net (decrease) in cash and cash equivalents		(3,379)	(4,539)
Cash and cash equivalents at the beginning of the financial year		12,760	17,773
Effects of exchange rate changes on cash and cash equivalents		(2,090)	(474)
Cash and cash equivalents at end of year	9	7,291	12,760

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

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*.

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). Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS).

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.

Critical accounting estimates

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

b) Going concern

The Group has experienced significant recurring operating losses and negative cash flows from operating activities since its inception. During the year the company successfully raised $18.8 million net of transaction costs, through a share placement and a share purchase plan and at 30 June 2011, the Group holds cash and cash equivalents of $7.3 million (2010: $12.8 million).

In July 2011, the Company completed a further share placement raising gross proceeds of $25 million. The directors have considered the significance and possible effects of these circumstances in order to determine the suitability of adopting the going concern basis for the preparation of these financial statements.

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

c) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of QRxPharma Limited ("company" or "parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. QRxPharma Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

(ii) Changes in ownership interests

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

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

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

d) Segment reporting

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

e) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

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

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

f) Revenue recognition

Interest income

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

g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based

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on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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

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

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

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

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

h) Business combinations

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity

interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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

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

i) Impairment of assets

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

j) Grant income

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

k) Cash and cash equivalents

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

l) Investments and other financial assets

Classification

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

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

Recognition and derecognition

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

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

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Subsequent measurement

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

Fair value

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

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) Property, plant and equipment

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

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

Plant and equipment	4 years

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

n) Intangible assets

(i) Intellectual property

Costs incurred in acquiring intellectual property are capitalised and amortised on a straight line basis over 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.

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

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 28.

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

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

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

(v) Bonus plans

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

(vi) Employee benefit on-costs

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

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

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 shares assumed to have been issued for no consideration in relation to 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 27 has been prepared on the same basis as the consolidated financial statements, except as set out below.

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

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

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

(iii) Share based payments
Share-based compensation benefits are provided to employees via the QRxPharma Limited Employee Option Plan and an employee share scheme. Information relating to these schemes is set out in note 28.

The fair value of options granted under the QRxPharma Limited Employee Option Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Amendments made to AASB 7 Financial Instruments: Disclosures in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. They are not expected to have any significant impact on the Group's disclosures. The Group intends to apply the amendment from 1 July 2011.

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

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

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

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

(vii) AASB 1054 Australian Additional Disclosures, AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project and AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project - Reduced Disclosure Requirements (effective from 1 July 2011)

The AASB and NZ FRSB have issued accounting standards that eliminate most of the existing differences between their local standards and IFRS. Where additional

disclosures were considered necessary, they were moved to the new standard AASB 1054. Adoption of the new rules will not affect any of the amounts recognised in the financial statements. The Group intends to adopt the standards from 1 July 2011.

(viii) IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities and revised IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2013)

In May 2011, the IASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. The AASB is expected to issue equivalent Australian standards shortly. The Group does not expect the new standard to have a significant impact on its composition.

(ix) AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective 1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Group will apply the amendments from 1 July 2011. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

(x) Revised IAS 1 Presentation of Financial Statements (effective 1 July 2012)

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

(xi) IFRS 13 Fair Value Measurement (effective 1 January 2013)

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

2 FINANCIAL RISK MANAGEMENT

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

The Group holds the following financial instruments:

	2011 $'000	2010 $'000
Financial assets		
Cash and cash equivalents	**7,291**	12,760
Trade and other receivables	**60**	76
Available for sale financial assets	**407**	407
	7,758	13,243
Financial liabilities		
Trade and other payables	**1,722**	2,094
	1,722	2,094

(a) Market risk

(i) Foreign exchange risk

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

During the year ended 30 June 2011, the Group entered into a series of Flexible Forward foreign exchange contracts to protect against adverse foreign exchange movements between the AUD and USD. Each contract stood alone and all had matured by 30 June 2011. Each contract had a floor rate of US$0.96 and a ceiling of US$1.00. On the maturity of each contract, if the spot rate was below the floor rate, the Company was obligated to buy the contracted amount of US dollars from the bank at US$0.96. If the spot rate was above the ceiling rate on contract maturity, the Company was obligated to buy the contracted amount of US dollars from the bank at US$1.00. If the spot rate was between US$0.96 and US$1.00, there was no obligation by either the bank or the Company.

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2 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk (continued)

During the year, the Group converted A$17.7 million at an average AUD to USD exchange rate of US$0.985.

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

	30 June 2011		30 June 2010	
	USD	***EUR***	USD	EUR
	$'000	**$'000**	$'000	$'000
Cash at bank	**239**	**-**	353	-
Term deposits	**6,716**	**105**	6,708	226
Trade payables	**10**	**-**	115	-

Group sensitivity

Based on the financial instruments held at 30 June 2011, had the Australian dollar weakened / strengthened by 15% (2010 – 15%) against the US dollar with all other variables held constant, the Group's post-tax loss for the year would have been $1.1 million lower / $0.8 million higher (2010 – $1.5 million lower / $1.1 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 bank accepted term deposit interest-bearing assets exposing the Group's income and operating cash flows to changes in market interest rates.

The value of borrowings at 30 June 2011 was $nil (2010 - $nil), thus limiting the Group's exposure to any cash flow risk in relation to liabilities.

Group sensitivity

As at 30 June 2011, if interest rates had changed by -12 / + 40 basis points (2010: -/+ 40 basis points) from the year-end rates with all other variables held constant, the post-tax loss for the year would have been $5,000 higher / $1,000 lower (2010 – $8,000 higher / $6,000 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 2011, 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 2011. Due to negative cash flow position the Group has not committed to any credit facilities and relied upon equity financing through private and public equity investors.

The Group entity's exposure to liquidity risk is restricted to the value of outstanding trade creditors. Trade payables generally have 30 day payment terms, and at 30 June 2011, the Group had no overdue liabilities. The value of trade creditors at 30 June 2011 for the Group was $935,000 (2010 - $1,313,000) which is payable within 1 month of year end and at 30 June 2011, the entity carried cash and cash equivalents of $7.3 million (2010 - $12.8 million). Other payables for the Group include accruals for employee benefits and other accruals to the value of $787,000 (2010 - $781,000).

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

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. 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 following table presents the Group's assets measured and recognised at fair value at 30 June 2011. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Assets				
Available-for-sale financial assets				
Equity securities	-	-	407	407
Total assets	-	-	407	407

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices for similar instruments and recent transactions are used to estimate fair value. There has been no change in the fair value of financial assets during the reporting period. There have been no changes to level 3 instruments for the year ended 30 June 2011.

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

2 FINANCIAL RISK MANAGEMENT (continued)

Summarised sensitivity analysis

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

		FOREIGN EXCHANGE RISK				INTEREST RATE RISK			
		-10%		+10%		-12bps		+40bps	
30 June 2011	Carrying amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets									
Cash and cash equivalents	7,291	1,143	-	(845)	-	(1)	-	5	-
Financial liabilities									
Trade payables	935	2	-	1	-	-	-	-	-
Total increase/(decrease)		1,145	-	(844)	-	(1)	-	5	-

		FOREIGN EXCHANGE RISK				INTEREST RATE RISK			
		-10%		+10%		-40bps		+40bps	
30 June 2010	Carrying amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets									
Cash and cash equivalents	12,760	1,462	-	(1,081)	-	(6)	-	8	-
Financial liabilities									
Trade payables	1,313	24	-	18	-	-	-	-	-
Total increase/(decrease)		1,486	-	(1,063)	-	(6)	-	8	-

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Research and development expenditure

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

Impairment of intangible assets

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

Black-Scholes option pricing model

During the year, the Group expensed $1.6 million of share based payments as determined through the application of the Black-Scholes option pricing model. The Black-Scholes model is dependent on a number of variables and estimates fully described in note 28.

Available-for-sale financial assets

The Group has reviewed and assessed the carrying value of the available-for-sale financial asset fully described in note 12 and determined that no impairment is required at 30 June 2011 based on the investment's net asset value.

4 SEGMENT INFORMATION

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

5 REVENUE

	2011 $'000	2010 $'000
From continuing operations		
Interest	177	261

6 OTHER INCOME

	2011 $'000	2010 $'000
Gain on loss of control in Venomics Hong Kong Limited	-	405
Grant income	748	-
	748	405

Grants of $748,000 received through the United States Department of Treasury's Qualifying Therapeutic Discovery Project were recognised as other income during the financial year. There were no unfulfilled conditions or other contingencies attached to these grants. The Group did not benefit directly from any other forms of government assistance.

7 EXPENSES

	2011 $'000	2010 $'000
Loss before income tax includes the following specific expenses:		
Depreciation and amortisation		
Plant and equipment	66	65
Net foreign exchange loss	2,090	474
Employee benefits expense		
Employee benefits expense	4,175	4,447
Defined contribution superannuation expense	61	58
Share-based payments	1,591	1,576
	5,827	6,081

7 EXPENSES (continued)

	2011 $'000	2010 $'000
Research and development		
Research and development expensed	15,008	18,006
Rental expenses relating to operating leases		
Minimum lease payments	137	128

8 INCOME TAX BENEFIT

	2011 $'000	2010 $'000
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	(25,635)	(27,474)
Tax at the Australian tax rate of 30% (2010 – 30%)	(7,690)	(8,242)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	476	473
	(7,214)	(7,769)
Adjustment for current tax of prior periods	910	(1,080)
Income tax losses not recognised	6,304	8,849
Income tax expense	-	-

(b) Tax losses

	2011 $'000	2010 $'000
Unused tax losses for which no deferred tax asset has been recognised	87,645	66,629
Potential tax benefit @ 30%	26,294	19,989

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

(i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or

(ii) the Group continues to comply with the conditions for deductibility imposed by tax legislation, and

(iii) no changes in tax legislation adversely affect the Group in realising the benefit from the deduction for the losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

8 INCOME TAX BENEFIT (continued)

(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

	2011	2010
	$'000	$'000
Cash at bank	895	1,224
Term deposits	6,396	11,536
	7,291	12,760

(a) Cash at bank

These bear an average interest rate of 4.5% (2010: 4.4%) for the AUD accounts and 0% (2010: 0%) for the USD accounts.

(b) Term deposits

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

The USD deposits bear an average fixed interest rate of 0.12% (2010: 0.18%). These deposits have a maturity of less than 3 months.

The EUR deposits bear an average fixed interest rate of 0.7% (2010: 0.19%). These deposits have a maturity of less than 3 months.

There were no AUD deposits at the end of June 2011. The average fixed interest rate for 2010 was 4.8%.

10 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	2011	2010
	$'000	$'000
Interest receivable	11	11
Other receivables	49	65
	60	76

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 2011 no receivables were impaired or past due (30 June 2010: nil).

11 CURRENT ASSETS - OTHER CURRENT ASSETS

	2011	2010
	$'000	$'000
Prepayments	295	390

12 NON-CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011	2010
	$'000	$'000
Unlisted securities		
Equity securities	**407**	407

(a) Investments in related parties

The available for sale financial assets represents the 6.98% investment in Venomics Hong Kong by Venomics Pty Limited. Venomics Hong Kong Limited is a company established to develop and commercialise the Group's venomics assets, Textilinin and Haempatch™, for the Chinese market. Venomics Pty Limited is a majority owned subsidiary of QRxPharma Limited and holds all of the venomics assets of the Group and maintains a minority interest in Venomics Hong Kong Limited. Data generated through the development of these products in China will support partnering activities in other territories, the rights of which have been retained by Venomics Pty Limited.

13 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	$'000
At 1 July 2009	
Cost	425
Accumulated depreciation	(151)
Net book amount	274
Year ended 30 June 2010	
Opening net book amount	274
Additions	31
Depreciation charge	(65)
Closing net book amount	240
At 30 June 2010	
Cost	456
Accumulated depreciation	(216)
Net book amount	240
Year ended 30 June 2011	
Opening net book amount	240
Additions	22
Depreciation charge	(66)
Closing net book amount	196
At 30 June 2011	
Cost	478
Accumulated depreciation	(282)
Net book amount	196

14 NON CURRENT ASSETS - INTANGIBLE ASSETS

	Patents, trademarks and other rights	Other intangible assets	Total
	$'000	$'000	$'000
Year ended 30 June 2010			
Opening net book amount	-	-	-
Impairment of intellectual property	-	-	-
Amortisation charge	-	-	-
Closing net book amount	-	-	-
At 30 June 2010			
Cost	15,502	889	16,391
Accumulated amortisation and impairment	(15,502)	(889)	(16,391)
Net book amount	-	-	-
Year ended 30 June 2011			
Opening net book amount	-	-	-
Impairment of intellectual property	-	-	-
Amortisation charge	-	-	-
Closing net book amount	-	-	-
At 30 June 2011			
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

	2011	2010
	$'000	$'000
Trade payables	**935**	1,313
Accrued employee benefits	**595**	468
Other payables	**192**	313
	1,722	2,094

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

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16 CONTRIBUTED EQUITY

	2011 Shares	2010 Shares	2011 $'000	2010 $'000
(a) Share capital				
Ordinary shares - fully paid	125,824,127	102,475,000	118,809	99,969

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	$'000
1 July 2009	Opening Balance	75,000,000		79,694
19 November 2009	Share placement	10,000,000	$0.80	8,000
23 December 2009	Rights issue	17,000,000	$0.80	13,600
2 March 2010	Exercise of employee options	92,400	$0.20	18
18 March 2010	Exercise of employee options	40,000	$0.20	8
31 March 2010	Exercise of employee options	92,400	$0.20	18
29 April 2010	Exercise of employee options	95,200	$0.20	19
29 April 2010	Exercise of employee options	30,000	$0.65	20
2 June 2010	Exercise of employee options	100,000	$0.37	37
21 June 2010	Exercise of employee options	25,000	$0.20	5
Less: Transaction costs arising on issue of shares				(1,450)
30 June 2010	Balance	102,475,000		99,969
7 October 2010	Share placement – Tranche 1	3,871,250	$0.85	3,291
8 November 2010	Exercise of employee options	10,000	$0.65	7
8 November 2010	Exercise of employee options	35,000	$0.20	7
9 November 2010	Share placement – Tranche 2	12,611,103	$0.85	10,719
19 November 2010	Share purchase plan	6,771,774	$0.85	5,756
13 May 2011	Exercise of employee options	50,000	$1.00	50
Less: Transaction costs arising on issue of shares				(990)
30 June 2011	Balance	125,824,127		118,809

During the year ended 30 June 2011, QRxPharma Limited successfully raised $19.8 million (before expenses) as a result of a share placement raising $14 million and a share purchase plan raising a further $5.8 million. The issue price under the placement and share purchase plan was $0.85 per share resulting in the issue of 23 million new ordinary shares.

(c) Ordinary shares

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

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

(d) Options

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

(e) Capital risk management

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

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

During the year QRxPharma Limited undertook a share placement and share purchase plan to strengthen the company's capital. Refer 16(b) above for further details.

17 RESERVES AND ACCUMULATED LOSSES

	2011	2010
	$'000	$'000
(a) Reserves		
Share-based payments reserve	8,484	6,893
Foreign currency translation reserve	85	133
Transactions with non-controlling interest reserve	456	463
	9,025	7,489

	2011	2010
	$'000	$'000
Movements:		
Share-based payments reserve		
Balance 1 July	6,893	5,432
Option expense	1,591	1,576
Non-controlling interest	-	(115)
Balance 30 June	8,484	6,893
Foreign currency translation reserve		
Balance 1 July	133	305
Currency translation differences arising during the year	(48)	(172)
Balance 30 June	85	133
Transactions with non-controlling interest reserve		
Balance 1 July	463	-
Sale of shares in Venomics Pty Limited	-	463
Issue of options in QRxPharma Limited to employee of Venomics Pty Limited	(7)	-
Balance 30 June	456	463

(b) Accumulated losses

Movements in accumulated losses were as follows:

	2011	2010
	$'000	$'000
Balance at 1 July 2010	(95,784)	(68,436)
Net loss for the year	(25,573)	(27,348)
Balance 30 June 2011	(121,357)	(95,784)

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18 NON-CONTROLLING INTERESTS

	2011	2010
	$'000	$'000
Interests in:		
Share capital	122	116
Reserves	122	115
Retained earnings	(194)	(126)
	50	105

Refer to note 24(a) for additional information.

19 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

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

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

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

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

(b) Other key management personnel

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

Name	Position
Chris J Campbell	Chief Financial Officer and Company Secretary
Philip J Magistro	Chief Commercial Officer
Patricia T Richards	Chief Medical Officer
M. Janette Dixon	Vice President Global Business Development
Richard A Paul (from 15 November 2010)	Executive Vice President Drug Development
Warren C Stern	Clinical Consultant (formerly Executive Vice President Drug Development to 31 March 2011)

All of the above persons except for Richard A Paul were also key management persons during the year ended 30 June 2010.

(c) Key management personnel compensation

	2011	2010
	$	$
Short-term employee benefits	2,802,683	2,319,365
Post-employment benefits	29,653	34,985
Share-based payments	948,827	725,540
	3,781,163	3,079,890

The company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in the remuneration report on pages 13 to 22.

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

(d) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on pages 17 to 20.

(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.

2011

Name	Balance at start of the year	Granted as compensation	Exercised	Forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of QRxPharma Limited							
Peter C Farrell	604,089	150,000	-	-	754,089	604,089	150,000
John W Holaday	1,105,452	250,000	-	-	1,355,452	955,452	400,000
Gary W Pace	402,726	150,000	-	-	552,726	402,726	150,000
Michael A Quinn	402,726	150,000	-	-	552,726	402,726	150,000
R Peter Campbell	241,635	150,000	-	-	391,635	241,635	150,000
Other key management personnel of the Group							
Warren C Stern	987,952	150,000	-	-	1,137,952	906,494	231,458
Chris J Campbell	602,726	162,500	-	-	765,226	506,893	258,333
Patricia T Richards	690,000	100,000	(45,000)	-	745,000	574,167	170,833
Philip J Magistro	390,000	125,000	-	-	515,000	309,167	205,833
M. Janette Dixon	350,000	150,000	-	-	500,000	187,500	312,500
Richard A Paul (from 15 November 2010)	-	250,000	-	-	250,000	-	250,000

2010

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

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19 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(d) Equity instrument disclosures relating to key management personnel

(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.

2011

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	1,630,540	-	185,000	1,815,540
John W Holaday	7,609,635	-	-	7,609,635
Gary W Pace	3,380,083	-	113,750	3,493,833
Michael A Quinn	8,374,371	-	106,291	8,480,662
R Peter Campbell	102,000	-	72,647	174,647
Other key management personnel of the Group				
Ordinary shares				
Warren C Stern	30,000	-	-	30,000
Chris J Campbell	25,000	-	17,674	42,647
Patricia T Richards	-	45,000	-	45,000
Philip J Magistro	-	-	-	-
M. Janette Dixon	200,000	-	40,000	240,000
Richard A Paul (from 15 November 2010)	-	-	-	-

2010

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

(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 $176,212 (2010: $97,266).

20 REMUNERATION OF AUDITORS

	2011 $'000	2010 $'000
(a) PricewaterhouseCoopers Australia		
Audit & other assurance services		
Audit and review of financial reports and other audit work under the Corporations Act 2001	129,000	110,000
Other assurance services		
Accounting advisory services	-	16,200
Total remuneration for audit and other assurance services	129,000	126,200
Taxation services		
Tax compliance services	8,000	4,660
Tax consulting and advice	25,280	26,100
Total remuneration for taxation services	33,280	30,760
Total remuneration of PricewaterhouseCoopers Australia	162,280	156,960
(b) Related practices of PricewaterhouseCoopers Australia		
Taxation services		
Tax compliance services	35,022	37,025
International tax consulting and advice	42,336	-
Total remuneration of related practices of PricewaterhouseCoopers Australia	77,358	37,025
Total auditors remuneration	239,638	193,985

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

21 CONTINGENCIES

As detailed in note 3 the Group acquired on 26 April 2007 a 100% interest in CNS Co, Inc. and through this acquisition now holds a license agreement with University of Alabama (USA). Under the terms of this license agreement the Group is obligated to meet certain milestone payments as advances against future royalties from the Torsin programme as follows:

(i) USD 750,000 on commencement by the Group of Phase II clinical trial for any Torsin IP product;

(ii) USD 1,500,000 on commencement by the Group of Phase III clinical trial for any Torsin IP product;

(iii) USD 2,000,000 on the date of receipt by the Group of first market approval for each Torsin IP product.

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

22 COMMITMENTS

(a) University of Alabama

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

(b) Operating Leases

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

	2011 $'000	2010 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	74	63
Later than one year but not later than five years	5	13
	79	76

23 RELATED PARTY TRANSACTIONS

(a) Subsidiaries

Interests in subsidiaries are set out in note 24.

(b) Key management personnel

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

(c) Outstanding balances

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

24 SUBSIDIARIES

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

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2011	2010
			%	%
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

(a) Transactions with non-controlling interests

On 7 July 2009 Janette Dixon was issued a 10% interest in Venomics Pty Limited as a reward for services rendered. In accordance with AASB 2 Share-based payments, this transaction was measured at fair value, with reference to similar transactions, and resulted in a share based payments expense of A$578,000 in the previous year.

On 23 September 2009, QRxPharma Limited issued shares amounting to a 10% interest in Venomics Pty Limited to Liaoning Nuokang Medicines Co. Ltd, a Chinese biopharmaceutical company based in Shenyang, China for US$500,000.

The carrying amount of the non-controlling interests in Venomics Pty Limited on the date the transaction was A$115,000. The Group recognised consideration on the sale of a 10% interest of A$578,000 and an increase in equity attributable to the owners of the parent of A$463,000. The effect of changes in the ownership interest of QRxPharma Limited on the equity attributable to the owners of QRxPharma Limited during the previous year is summarised as follows:

	2011	2010
	$'000	$'000
Consideration received for non-controlling interest	-	578
Carrying amount of controlling interest	-	(115)
Excess of consideration received recognised in the transactions with non-controlling interest reserve within equity	-	463

25 RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2011	2010
	$'000	$'000
Loss for the year	(25,635)	(27,474)
Depreciation and amortisation	66	65
Non cash employee benefits expense- share- based payments	1,591	1,576
Net exchange differences on cash and cash equivalents	2,042	295
Gain on loss of control of Venomics Hong Kong Limited	-	(405)
Change in operating assets and liabilities		
Decrease in other receivables and prepayments	111	177
(Decrease)/increase in trade creditors and accruals	(372)	405
Net cash outflow from operating activities	(22,197)	(25,361)

26 LOSS PER SHARE

	2011	2010
	Cents	Cents
(a) Basic loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the company	(21.7)	(30.3)
(b) Diluted loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the company	(21.7)	(30.3)

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

	2011	2010
	$'000	$'000
Basic loss per share Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share	(25,573)	(27,348)
Diluted loss per share Loss attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	(25,573)	(27,348)

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

	2011	2010
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	117,611,534	90,384,036
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share	117,611,534	90,384,036

(e) Information concerning the classification of securities

(i) Options

Options are considered to be potential ordinary shares. The options are not included in the calculation of diluted earnings per share because they are anti dilutive. These options could potentially dilute basic earnings per share in the future. Details relating to the options are set out in note 28.

27 PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	2011	2010
	$'000	$'000
Balance Sheet		
Current assets	7,417	12,212
Total assets	8,750	13,469
Current liabilities	2,678	1,831
Total liabilities	2,678	1,831
Shareholder's equity		
Issued capital	118,809	99,969
Share based payment reserve	8,022	6,430
Accumulated losses	(120,759)	(94,761)
	6,072	11,638
(Loss) for the year	(25,992)	(26,603)
Total comprehensive (loss)	(25,992)	(26,603)

(b) Guarantees entered into by the parent entity

There are no guarantees entered into by the parent entity.

27 PARENT ENTITY FINANCIAL INFORMATION (continued)

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2011 or 30 June 2010.

(d) Commitments of the parent entity

The parent entity leases office premises in Sydney, Australia.

	2011 $'000	2010 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	14	5
Later than one year but not later than five years	3	6
	17	11

(e) Convertible Note

During the year, QRxPharma Limited subscribed to 37,500 convertible notes in Venomics Pty Limited at US$4 face value per note. These notes carry an interest rate of 10% per annum (compounding monthly), and mature on 20 December 2011. 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.

At 30 June 2011, QRxPharma Limited assessed the carrying value of the notes and determined that these notes may not be recoverable. Accordingly, it has impaired the value of these notes to $nil at 30 June 2011.

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

28 SHARE-BASED PAYMENTS

(a) QRxPharma Employee Share Option Plan (ESOP)

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

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

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

The approval of the Company's shareholders must be obtained for any amendment to the option plan in relation to:

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

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

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

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

2011

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

28 SHARE BASED PAYMENTS (continued)

2010

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
			Number	Number	Number	Number	Number	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	$2.00	1,448,450	-	-	-	1,448,450	1,448,450
25 May 2007	25 May 2014	$1.00	552,726	-	-	-	552,726	552,726
25 May 2007	25 May 2010	$2.20	322,181	-	-	(322,181)	-	-
1 September 2007	1 September 2014	$1.70	50,000	-	-	-	50,000	33,333
1 October 2007	1 October 2014	$1.45	75,000	-	-	-	75,000	50,000
9 October 2007	9 October 2014	$1.34	50,000	-	-	-	50,000	33,333
1 January 2008	1 January 2015	$1.11	350,000	-	-	(150,000)	200,000	133,333
1 April 2008	1 April 2015	$1.05	600,000	-	-	-	600,000	400,000
1 April 2008	1 April 2015	$1.04	75,000	-	-	-	75,000	50,000
1 October 2008	1 October 2015	$0.60	50,000	-	-	-	50,000	16,667
4 November 2008	4 November 2015	$0.37	100,000	-	(100,000)	-	-	-
1 January 2009	1 January 2016	$0.20	710,000	-	(345,000)	(35,000)	330,000	165,000
31 August 2009	31 August 2016	$0.65	-	537,500	(30,000)	(30,000)	477,500	-
1 October 2009	1 October 2016	$0.90	-	150,000	-	-	150,000	-
16 November 2009	16 November 2016	$1.12	-	300,000	-	-	300,000	-
1 January 2010	1 January 2017	$0.78	-	100,000	-	-	100,000	-
17 February 2010	17 February 2017	$0.84	-	565,000	-	-	565,000	-
24 March 2010	24 March 2014	$1.26	-	295,000	-	-	295,000	-
Total			6,799,713	1,947,500	(475,000)	(537,181)	7,735,032	5,299,199
Weighted average exercise price			$1.22	$0.90	$0.26	$1.68	$1.17	$1.30

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2011 was $1.09 (2010 – $1.09)

The weighted average remaining contractual life of the share options outstanding at the end of the period was 4.23 years. (2010 – 4.67 years)

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2011 was $0.78 per option (2010 - $0.59). 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 2011 included:

(a) *exercise price: $0.90 to $2.00 (2010 - $0.65 to $1.26)*
(b) *grant date: 1 July 2010, 24 August 2010, 1 October 2010, 25 October 2010, 8 November 2010, 1 January 2011 (2010 - 31 August 2009, 1 October 2009, 16 November 2009, 1 January 2010, 17 February 2010, 24 March 2010)*
(c) *expiry date: 1 July 2017, 24 August 2017, 1 October 2017, 25 October 2014, 8 November 2017, 1 January 2018, 01 January 2015 (2010 - 31 August 2016, 1 October 2016, 16 November 2016, 1 January 2017, 17 February 2017, 24 March 2017)*
(d) *share price at grant date: $0.93 to $1.40 (2010 - $0.65 to $1.12)*
(e) *expected price volatility of the company's shares: 80% (2010 - 80%)*
(f) *expected dividend yield: nil% (2010 - nil%)*
(g) *risk free interest rate: 5.3% (2010 - 5.3%).*

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

(c) Expenses arising from share based payment transactions

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

	2011	2010
	$'000	$'000
Options issued under employee option plan	**1,591**	1,576

29 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In July 2011, the Company conducted a share placement of 17,241,379 shares at an issue price of $1.45, raising gross proceeds of $25 million. A non-renounceable rights issue with a ratio of 1 new share for every 20 existing shares at an issue price of $1.45, to raise up to an additional $10.4 million (if fully subscribed), opened on 8 August 2011 with a closing date of 22 August 2011.

On 18 July 2011 the Company announced the achievement of a significant milestone with the initiation of the filing of its New Drug Application for MoxDuo®IR with the United States Food and Drug Administration.

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

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 32 to 65 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the Corporations Act 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of their performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

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

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

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

Peter C Farrell
Director

Sydney
18 August 2011

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Independent auditor's report to the members of QRxPharma Limited

Report on the financial report

We have audited the accompanying financial report of QRxPharma Limited (the company), which comprises the consolidated balance sheet as at 30 June 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the QRxPharma Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

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

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 13 to 22 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of QRxPharma Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Manoj Santiago
Partner

Sydney
18 August 2011

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 21 September 2011.

A. DISTRIBUTION OF EQUITY SECURITIES

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

	Shares	Options
1 – 1,000	272	-
1,001 – 5,000	514	-
5,001 – 10,000	344	2
10,001 – 100,000	625	13
100,001 and over	119	21
	1,874	36

There are 164 holders of less than a marketable parcel of ordinary shares.

B. EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders.

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

	ORDINARY SHARES	
Name	Number held	Percentage of issued shares
HSBC Custody Nominees (Australia) Limited	15,772,081	10.94%
JP Morgan Nominees Australia Limited	13,553,688	9.40%
National Nominees Limited	11,708,310	8.12%
Dr John Holaday	7,609,635	5.28%
Four Hats Financial Services Limited	7,247,372	5.03%
Citicorp Nominees Pty Limited	5,814,677	4.03%
Innovation Capital Limited	5,269,090	3.65%
Uniquest Pty Limited	4,805,399	3.33%
Werft Pty Ltd	4,256,149	2.95%
Spring Ridge Ventures I, LP	4,228,673	2.93%
Merrill Lynch (Australia) Nominees Pty Limited	3,814,423	2.65%
Dr Gary Pace	3,526,827	2.45%
UIIT Pty Limited	2,610,408	1.81%
Jigley Holdings Pty Limited	1,917,647	1.33%
Dr Peter Farrell	1,865,367	1.29%
Auckland Trust Company Limited	1,575,000	1.09%
Tesroff Pty Limited	1,495,055	1.04%
UBS Nominees Pty Limited	1,182,478	0.82%
Mr WJ and Mrs CE Moulden	880,000	0.61%
ITR Investments Pty Ltd	850,000	0.59%
	99,982,279	69.35%

SHAREHOLDER INFORMATION
(CONTINUED)

Unquoted equity securities

	Number on issue	Number of holders
Options issued under the QRxPharma Limited Employee Share Option Plan to take up ordinary shares	10,680,032*	36**

* Number of unissued ordinary shares under the options.

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

C. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

Ordinary shares

	Number held	Percentage
Orbis Investment Management (Australia) Pty Limited	12,960,965	8.99%
Westpac Banking Corporation	11,573,080	8.03%
Innovation Capital Limited, Innovation Capital LLC, and Innovation Capital Associates Pty Limited	7,988,287	5.54%
Auckland Trust Company Limited, Tesroff Pty Limited, Werft Pty Ltd and Langley Walker	7,866,472	5.46%
Dr John W Holaday and Holaday Foundation	7,609,635	5.28%
Four Hats Financial Services Limited	7,247,372	5.03%

D. VOTING RIGHTS

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

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options

No voting rights.

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www.qrxpharma.com