QRxPharma Limited

ABN 16 102 254 151

ASX Preliminary final report – 30 June 2011

Lodged with the ASX under Listing Rule 4.3A

The report is to be read in conjunction with the Statutory Annual Report dated 18 August 2011 and any public announcements made during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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Appendix 4E Preliminary Final Report

QRxPharma Limited
ABN 16 102 254 151

1. Reporting Period

Report for the financial year ended 30 June 2011.
Previous corresponding period is the financial year ended 30 June 2010.

2. Results for announcement to the market

				$A'000
Revenue from ordinary activities *(item 2.1)*	Down	32.2%	To	177
Net loss from ordinary activities after tax attributable to members *(item 2.2)*	Down	6.5%	To	(25,573)
Net loss for the period attributable to members *(item 2.3)*	Down	6.5%	To	(25,573)

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

Revenue

The decrease in revenue represents a reduction in interest income earned as consequence of average lower funds held of $13.2 million (2010: $17.0 million) during the year together with lower prevailing interest rates of average 1.3% (2010: 1.5%). Interest earned amounted to $0.2 million (2010: $0.3 million).

Net loss from ordinary activities

The net loss from ordinary activities of $25.6 million (2010: net loss $27.3 million) was in line with expectations of the Board of Directors, and resulted from fulfilling research and development activities in the progression of the Company's clincial pipeline candidates and preclinical stage drugs.

The net loss includes the following key items:

- research and development expenditure of $15.0 million (2010: $18.0 million) primarily incurred in progressing the Company's Phase 3 clinical trial programme of its' lead compound MoxDuo® IR.
- total employee benefits expense of $5.8 million which was in line with the prior year (2010: $6.1 million).
- business development expenses of $1.7 million (2010 $1.1 million) associated with MoxDuo.

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

3. Statement of comprehensive income - Refer to the attached Annual financial report

4. Balance sheet - Refer to the attached Annual financial report

5. Statement of cash flows - Refer to the attached Annual financial report

6. Statement of changes in equity - Refer to the attached Annual financial report

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

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

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

	30 June 2011	**30 June 2010**
Net tangible assets per ordinary share	$0.052	$0.115

10. The Group did not acquire or lose control over any entities during the period. (2010: loss of control on 15 October 2009 of Venomics Hong Kong Limited)

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

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

At 30 June 2011, the Company had cash reserves of $7.3 million (2010: $12.8 million). The operating results for the year ended 30 June 2011 are reflective of the Company's activities to progress the clinical trial programme for its lead compound, MoxDuo, while continuing to advance its other product candidates.

Subsequent to 30 June 2011, the cash balance has been significantly increased with an oversubscribed Placement to institutions and professional investors, raising $25 million as announced to the ASX on 22 July 2011. The Company has also launched a 1 for 20 Non-renounceable Rights Issue to raise up to an additional $10.4 million. The combined Placement and Rights Issue (if fully subscribed) will raise gross proceeds of up to $35.4 million. Post the Placement and Rights Issue (if fully subscribed), the Company's pro-forma net cash position (after expenses of the capital raising) at 30 June 2011 would be approximately $41 million.

Key Achievements

MoxDuo:

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

The Dual Opioid pipeline includes three complementary products to address various pain management needs: MoxDuo® IR, an immediate-release oral capsule for acute pain; MoxDuo CR a controlled-release oral tablet for chronic pain; and MoxDuo IV, an intravenous formulation for hospital use.

Over the last year QRxPharma has made significant progress on the Phase 3 development programme for MoxDuo IR, culminating in the achievement of a significant milestone in July 2011 with the initiation of the filing of its New Drug Application (NDA) with the United States Food and Drug Administration (FDA). This NDA submission moves the Company significantly closer to entering the $2.5 billion market for prescription opioids to treat moderate to severe acute pain, a segment of the $8 billion spent annually on prescription opioids in the US. Approval of an NDA typically takes 10-12 months from submission.

The initiation of the NDA comes on the back of a number of achievements over the last 12 months including the following:

- **MoxDuo IR**: In February 2011 the Company announced the successful completion of its third pivotal Phase 3 registration trial (Study 009) for this lead product candidate using a second pain model. The objective was to evaluate the analgesic efficacy and safety of MoxDuo IR comparing a flexible dose against a fixed low dose regimen for managing moderate to severe pain following a total knee replacement surgery. Analysis of data indicated that patients in the flexible dose treatment group achieved statistically superior pain reduction ($p<0.02$) compared to those receiving the lower dose.

  In June 2011 the Company completed a comparative safety study (Study 022) comparing the tolerability and safety profile of MoxDuo IR to equi- analegesic doses of either morphine or oxycodone alone. The primary endpoint of respiratory depression as measured by oxygen desaturations, which were less severe and of shorter duration in patients receiving MoxDuo compared to those receiving equianalegesic doses of either morphine or oxycodone alone, was met. This study will be submitted as part of a 2011 NDA update filing with the FDA and will also be supportive of the European Marketing Authorisation Application (MAA) scheduled for submission in the first half of 2012.

- **MoxDuo IV:** In August 2010 the Company announced positive results of its Phase 2 comparative proof-of-concept study to evaluate the efficacy and safety of its IV (intravenous) formulation of morphine plus oxycodone versus IV morphine alone for the treatment of moderate to severe post-operative pain in patients following hip replacement surgery. The main findings demonstrated that the combination morphine/oxycodone formulation resulted in fewer side effects and offered better pain relief than morphine alone.

Other technologies:

- **Venomics:** The Company continues to retain its interest in its strategic alliance with Liaoning Nuokang Medicines Co Ltd, a Chinese biopharmaceutical company based in Shenyang, China to develop and commercialise QRxPharma's venomics assets for the Chinese market. Data generated through the development of QRxPharma's lead haemostasis product candidates: Textilinin, an anitfibrinolytic agent, and Haempatch™, a product pro-coagulant, in China, will support partnering activities in other territories, the rights of which have been retained by QRxPharma's subsidiary, Venomics Pty Limited.

- **Neurodegenerative Disease Products:** Development efforts with the Company's Dystonia, Parkinson's Disease and Alzheimer's Disease programme (Torsin) with a family of small molecules continues under a collaborative research agreement at the University of Alabama (Caldwell Labs).

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

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

This preliminary financial report is based on accounts which have been audited. The audit report, which is unqualified, will be made available when the Company lodges its Statutory Annual Report.

The entity has a formally constituted audit committee.

C. J. Campbell

Chris J Campbell
Company Secretary
QRxPharma Limited
18 August 2011

QRxPharma Limited ABN 16 102 254 151
Annual financial report - 30 June 2011

Contents

ATTACHMENT 1

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

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

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

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities, both of which are not part of this financial report.

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.

	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.

	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.

	Attributable to the owners of QRxPharma Limited					
	Contributed equity $'000	**Reserves $'000**	**Retained earnings $'000**	**Total $'000**	**Non-controlling interests $'000**	**Total equity $'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.

	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 sales 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

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.

1 Summary of significant accounting policies (continued)

c) Principles of consolidation (continued)

(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.

1 Summary of significant accounting policies (continued)

g) Income tax

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

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

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

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

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

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

h) Business combinations

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable 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.

1 Summary of significant accounting policies (continued)

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.

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.

1 Summary of significant accounting policies (continued)

l) Investments and other financial assets (continued)

Impairment (continued)

(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 capitalized and amortised on a straight line basis of the period of the expected benefit.

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

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

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

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.

1 Summary of significant accounting policies (continued)

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.

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.

1 Summary of significant accounting policies (continued)

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.

1 Summary of significant accounting policies (continued)

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.

(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 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 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.

1 Summary of significant accounting policies (continued)

x) New accounting standards and interpretations (continued)

(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

2 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)
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.

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 $'000	**EUR $'000**	USD $'000	EUR $'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 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'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.

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

		Foreign exchange risk				Interest rate risk			
	Carrying	-10%		+10%		-12bps		+40bps	
30 June 2011	amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial assets									
Cash and cash equivalents	7,291	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			
	Carrying	-10%		+10%		-40bps		+40bps	
30 June 2010	amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'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 the 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 benefit expense		
Employee benefit expense	**4,175**	4,447
Defined contribution superannuation expense	**61**	58
Share-based payments	**1,591**	1,576
	5,827	6,081
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	**6,305**	8,849
Income tax expense	**-**	-

	2011 $'000	2010 $'000
(b) Tax losses		
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 and timing differences generated from operations in both Australia and the USA, as the benefit for tax losses will only be obtained if:
(i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
(ii) the Group continues to comply with the conditions for deductibility imposed by tax legislation, and
(iii) no changes in tax legislation adversely affect the Group in realising the benefit from the deduction for the losses.

(c) Tax consolidation legislation

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

9 Current assets – Cash and cash equivalents

	2011 $'000	2010 $'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 $'000	2010 $'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 $'000	2010 $'000
Prepayments	**295**	**390**

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

	2011 $'000	2010 $'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 $'000	Other intangible assets $'000	Total $'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	-	-	-

	Patents, trademarks and other rights $'000	Other intangible assets $'000	Total $'000
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 $'000	2010 $'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.

16 Contributed equity

(a) Share capital

	2011 Shares	2010 Shares	**2011 $'000**	2010 $'000
Ordinary shares - fully paid	**125,824,128**	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 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 $'000	2010 $'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
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 $'000	2010 $'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.

18 Non-controlling interests

	2011 **$'000**	2010 $'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 which is not included in this financial report.

19 Key management personnel disclosures (continued)

(c) Key management personnel compensation (continued)

M. Janette Dixon was appointed a director of Venomics Pty Limited on 23 September 2009 and is considered to fall within the definition of Group executive from that date. Fees and bonus payments were made pursuant to consultancy agreements held with BioComm Pacific 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.

(d) Equity instrument disclosures relating to key management personnel

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

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

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

19 Key management personnel disclosures (continued)

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

(iii) Share holdings

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

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	-	17,647	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 $	2010 $
(a) PricewaterhouseCoopers Australia		
Audit and 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.

22 Commitments (continued)

(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.

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:

24 Subsidiaries (continued)

	2011 $'000	2010 $'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 $'000	2010 $'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 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)

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

	2011 $'000	2010 $'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 Number	2010 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

26 Loss per share (continued)

(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:

Balance Sheet	2011 $'000	2010 $'000
Current assets	**7,417**	12,212
Total assets	**8,750**	13,469
Current liabilities	**2,678**	1,831
Total liabilities	**2,678**	1,831
Shareholders' 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.

(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

27 Parent entity financial information (continued)

(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 capitalization as provided in clause 16.3 of the option plan. The approval of the Company's shareholders must be obtained for any amendment to the option plan in relation to:
(a) increasing the maximum aggregate number of shares that may be issued under the option plan;
(b) any change in the class of employees eligible to receive options under the option plan;
(c) any change in the shares reserved for issuance under the option plan; and
(d) substitution of another entity in place of the Company as the issuer of shares under the option plan.

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

Options granted under the plan carry no dividend or voting rights. The vesting period for each option 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)).

28 Share-based payments (continued)

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

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
2011								
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)

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
2010								
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 (2009 - 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.

28 Share-based payments (continued)

(d) Expenses arising from share-based payment transactions

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

	2011 **$'000**	2010 $'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.