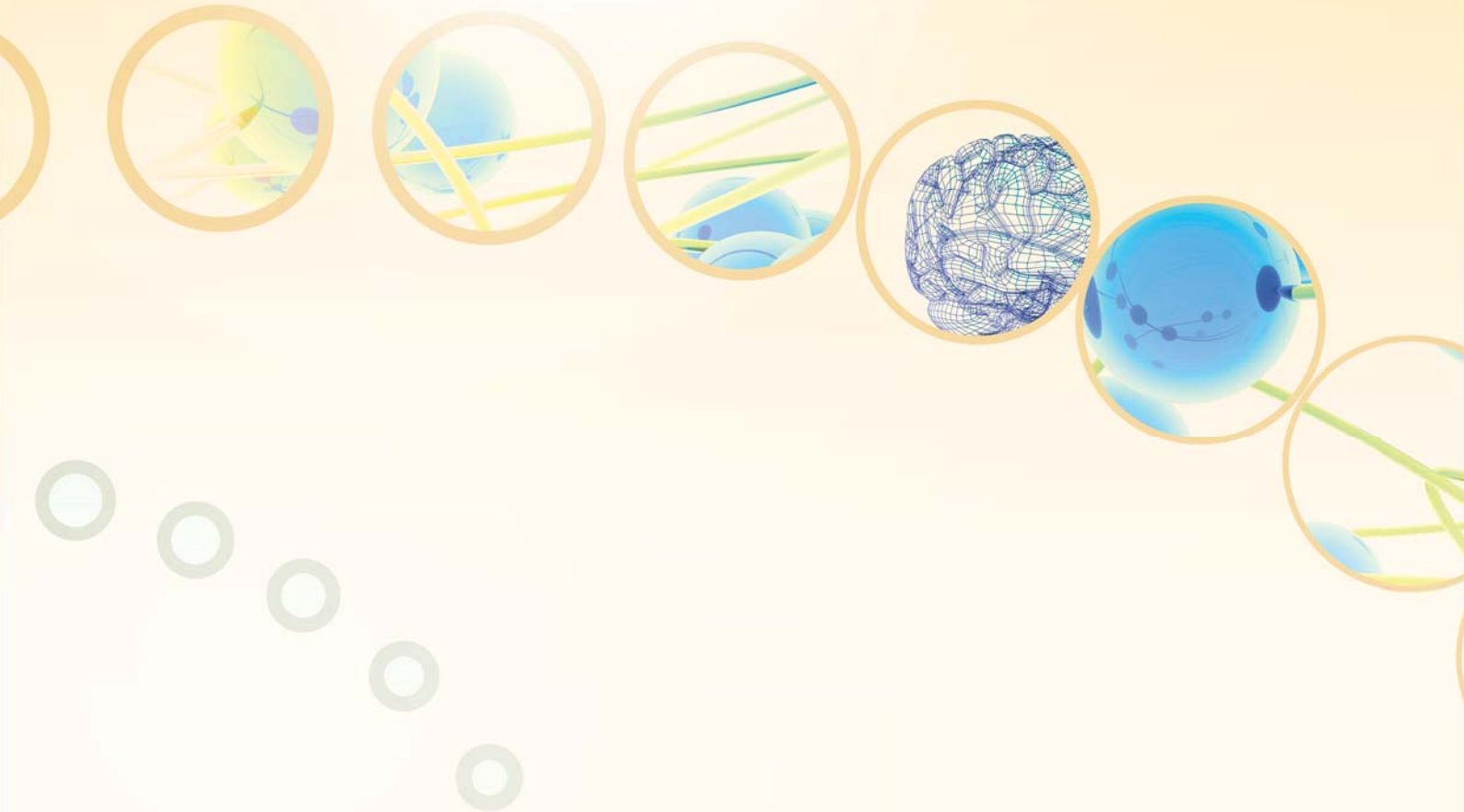
QRx Pharma



Opening the therapeutic window for doctors and patients.

QRXPHARMA IS A CLINICAL-STAGE SPECIALTY PHARMACEUTICAL COMPANY FOCUSED ON THE DEVELOPMENT AND COMMERCIALISATION OF THERAPIES FOR PAIN MANAGEMENT AND CENTRAL NERVOUS SYSTEM (CNS) DISORDERS.

Based on a business strategy to expand the clinical utility and commercial value of marketed and/or existing compounds, QRxPharma's product portfolio includes both late and early stage clinical drug candidates with well-defined paths to regulatory approval and sales. The Company intends to directly commercialise its products in the US and seek strategic partnerships for worldwide markets. QRxPharma's lead compound, MoxDuo™IR (Q8003IR), is in Phase 3 clinical development and has successfully completed multiple comparative studies evaluating its efficacy and safety against equianalgesic doses of morphine, oxycodone and Percocet® for the treatment of acute pain. Study results consistently demonstrate MoxDuo™IR's greater overall tolerability, achieving better pain relief with substantially fewer incidences of moderate to severe side effects. The Company's preclinical and clinical pipeline includes other technologies in the fields of pain management, neurodegenerative disease and venomics.

QRxPHARMA LIMITED
ABN 16 102 254 151

CORPORATE DIRECTORY

Directors	Peter C Farrell PhD, ScD, AM, *Non Executive Chairman* John W Holaday PhD, ***Managing Director and Chief Executive Officer*** R Peter Campbell FCA, FTIA Gary W Pace PhD Michael A Quinn MBA
Secretary	Chris J Campbell CA
Notice of annual general meeting	The annual general meeting of QRxPharma Limited will be held in Sydney on 16 November 2009
Principal registered office in Australia	QRxPharma Limited Level 1 194 Miller St North Sydney NSW 2060
Share register	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000
Auditor	PricewaterhouseCoopers Darling Park Tower 2 201 Sussex Street GPO BOX 2650 Sydney NSW 1171
Solicitors	Dibbs Barker Level 8, Angel Place 123 Pitt Street Sydney NSW 2000
Stock exchange listings	QRxPharma Limited shares are listed on the Australian Securities Exchange. Listing Code: QRX QRxPharma Limited American Depositary Receipts are listed on the OTCQX. Symbol: QRXPY
Website address	www.qrxpharma.com

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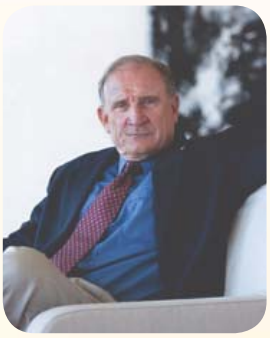
KEY ACHIEVEMENTS

MAY 2007	IPO: Initial Public offering completed raising A$50 million
NOVEMBER 2007	MoxDuo™ IR: Phase 3 trials initiated with Dose Range Study
MAY 2008	MoxDuo™ IR: Dose Range study completed: Establishes Preferred Dose for Optimal Efficacy and Tolerability; Study Goals and Secondary Endpoints Met (256 patients)
JULY 2008	MoxDuo™ IR: FDA accepts streamlined Phase 3 development programme: No Long Term Safety Data Required; Only Two Additional Phase 3 Studies for New Drug Application Submission
DEC 2008	MoxDuo™ IR: Initiation of ”Combination Rule” Pilot Study
FEB 2009	MoxDuo™ IR: Initiation of Comparative Pilot Study in Pain after Total Knee Replacement
APRIL 2009	MoxDuo™ IR: ”Combination Rule” Pilot Study demonstrates that MoxDuo™ IR provides greater tolerability / fewer side effects than Morphine or Oxycodone alone (197 patients)
JUNE 2009	MoxDuo™ IV: First patient dosed in Phase 2 Investigator study
AUGUST 2009	MoxDuo™ IR: Comparative Pilot Study in Pain after Total Knee Replacement demonstrates that MoxDuo™ IR provides greater tolerability / fewer side effects than Percocet® (44 patients)
OCTOBER 2009	MoxDuo™ IR: FDA final review of MoxDuo™ IR Phase 3 Combination Rule study Special Protocol Assessment Anticipated timing of announcement
DECEMBER 2009	MoxDuo™ IV: Complete dosing of patients in MoxDuo™ IV Phase 2 Investigator study MoxDuo™ CR: Commence MoxDuo™ CR Phase 1 study MoxDuo™ IR: Initiate remaining MoxDuo™ IR Pivotal Phase 3 study programme Anticipated timing of announcement

LETTER FROM THE CHAIRMAN

Dear Shareholder,



On behalf of the Board and management of QRxPharma, I am pleased to present our 2009 annual report.

The past 12 months will be remembered as a year of change. A year in which the global economic crisis brought an end to the belief of uninterrupted growth. A year in which companies – once icons of industries – are now fighting for their very survival. A year in which financial uncertainty threatened the engine of innovation upon which wealth creation and our prosperity depend.

Against such a backdrop it is with some humility but also, pride and satisfaction – that I can report that the past year has been very positive for QRxPharma, demonstrating the results of our focused business approach. It's been a year of measured achievement with both good scientific progress and prudent resource management. This discipline and commitment to build shareholder value even in these uncertain times, has placed the Company on an upward trajectory when many companies are failing to achieve their stated goals.

Our primary objective remains the commercialisation of MoxDuo™IR (formerly Q8003IR), the Company's lead product candidate for the treatment of acute pain. In the past 12 months, we've made encouraging progress towards this goal. With the successful completion of multiple comparative pilot studies, we've advanced our Phase 3 program for MoxDuo™IR and demonstrated the clinical benefit, as well as the commercial value of our patented Dual-Opioid™ platform.

To date, more than 400 patients, experiencing different forms of post-surgical pain (bunionectomy and total knee replacement), have received MoxDuo™IR. Study results consistently demonstrate MoxDuo™IR's greater overall tolerability with substantially fewer incidences of moderate to severe side effects than observed with morphine, oxycodone and Percocet®.

Data collected from these trials has provided additional guidance for optimizing the design and implementation of two pending pivotal Phase 3 studies required for filing a New Drug Application (NDA) with the US Food and Drug Administration (FDA). QRxPharma remains on track to launch the world's first dual-opioid™ product, MoxDuo™IR, in 2011.

The Company also advanced clinical development of its complementary dual-opioid™ products, with the initiation of a Phase 2 comparative proof-of-concept study, evaluating the efficacy and safety of MoxDuo™IV (intravenous morphine and oxycodone) against IV morphine for the treatment of moderate to severe post-operative pain. MoxDuo™CR, a continuous release formulation designed to provide 12 hours of pain relief in patients with moderate to severe pain, is on schedule to initiate Phase 1 studies by the end of the 2009 calendar year. These formulations incorporate both tamper resistant and abuse deterrent technologies.

LETTER FROM THE CHAIRMAN (CONTINUED)

Additionally, QRxPharma continues to advance the development of its Torsin program under collaborative research agreement with the University of Alabama (Caldwell Labs). These small molecules target dystonia, Parkinson's disease, Alzheimer's disease as well as similar neurologic disorders. Preclinical trials, supported in part by the Michael J. Fox Foundation, are presently underway to evaluate the Company's lead drug candidates in Parkinson's disease.

QRxPharma has continued to make significant progress over the past year, having achieved our projected clinical development goals for MoxDuo™IR, whilst maintaining development momentum of other drug candidates. And we have done this while being suitably fiscally conservative.

I would like to take this opportunity to thank my fellow Board members, CEO Dr John Holaday, the management team, and all staff in Australia and the US for their dedication and determination throughout the year. We also appreciate your continued support and look forward to communicating with you over the coming year as events unfold.

Peter C Farrell, PhD, ScD, AM
Chairman

CEO REVIEW

Advances in science usually occur when convention is creatively challenged with solid data. Over twenty years ago, the World Health Organization stated: "never administer two powerful opioids at the same time". Our founding scientist, Prof. Maree Smith at the University of Queensland, asked: "why not". Her discovery, that the combination of two powerful opioids, morphine and oxycodone, demonstrated synergy on pain relief with fewer side effects, is the basis of our remarkable clinical findings. The Company's lead product candidate, MoxDuo™IR, an immediate-release oral capsule, the first patented analgesic product in the world that consists of two opioids (a fixed ratio of morphine and oxycodone), has shown her vision to be true. We now have demonstrated in Phase 2 and 3 clinical trials that this combination therapy provides pain relief while significantly limiting the debilitating side effects that prevent the use of opioids for treating moderate to severe pain.

While many analgesic combination drugs exist – such as Percocet®, which contains an opioid (oxycodone) combined with a classic mild pain reliever like acetaminophen (Tylenol®), such products are typically used for controlling mild to moderate pain. MoxDuo™IR, however, is intended for the treatment of moderate to severe acute pain – a $2.5 billion segment of the $8 billion spent annually on prescription opioids in the United States.

In clinical trials conducted to date, our data indicate that QRxPharma's patented combination of morphine plus oxycodone works synergistically to increase analgesia while significantly decreasing the frequency and severity of opioid-related side effects.

Expanding on these promising clinical findings with our immediate-release formulation, our Dual-Opioid™ product portfolio includes two complementary products: MoxDuo™CR, a controlled-release oral capsule (with abuse deterrent and tamper resistant technologies) for chronic pain and MoxDuo™IV, an intravenous formulation for treating moderate to severe hospital-based pain.

In the past 12 months, the Company significantly advanced its MoxDuo™IR Phase 3 clinical program, completing two critical comparative pilot studies. The first study compared the efficacy and safety profile of MoxDuo™IR to corresponding doses of oxycodone and morphine in patients experiencing moderate to severe pain in the first 24 hours following a scheduled surgical procedure (bunionectomy).

When postoperative pain reached a measure of at least "4" on the Numerical Pain Rating Scale (10 being the most severe), patients either received MoxDuo™IR, morphine or oxycodone every 6 hours for 48 hours. The study's primary clinical endpoint was changes in the pain intensity scores from baseline for MoxDuo versus component doses of morphine and oxycodone alone. Secondary endpoints included: (1) efficacy relating to the time to onset of analgesia and global assessment of effect; and (2) safety as measured by the incidence and intensity of opioid-related adverse events. The study enrolled 197 patients at 6 US clinical research sites.

Significantly, the frequency of moderate to severe adverse events (including nausea, vomiting, constipation, dizziness, etc.) was 50% to 75% lower among patients on MoxDuo™IR compared to those receiving equi-analgesic doses of morphine or oxycodone alone. Furthermore, patients receiving morphine or oxycodone were two to four times more likely to prematurely discontinue dosing (due to side effects) than those on MoxDuo™IR.

These results were incorporated into an updated version of the Company's "combination rule" pivotal Phase 3 study protocol for MoxDuo™IR submitted in June 2009 to the US Food and Drug Administration (FDA) for Special Protocol Assessment (SPA) approval. This process enables companies to achieve advanced agreement with the FDA regarding study design acceptability and proposed statistical analysis plans prior to implementation of the pivotal Phase 3 clinical trial.

QRxPharma's second pilot study compared the efficacy and safety profile of MoxDuo™IR capsules to equi-analgesic doses of Percocet® in patients experiencing moderate to severe pain following total knee replacement surgery. Patients were treated every four to six hours over a 48-hour period. The study enrolled a total of 44 patients at five US clinical research sites.

As with morphine and oxycodone, when compared to equi-analgesic doses of Percocet®, MoxDuo™IR demonstrated greater overall tolerability – enabling doctors and patients to achieve better pain relief while significantly decrease the frequency and severity of side effects.

CEO REVIEW (CONTINUED)

All primary study objectives were met comparing: (1) analgesic efficacy and safety; and (2) a flexible dosing regimen of MoxDuo™IR against a fixed low dose (3/2 mg). Patients receiving the flexible dosing regimen of MoxDuo™IR achieved significantly greater pain relief than those receiving the low dose formulation ($p<0.05$).

Data collected from both pilot studies will provide additional guidance for optimizing the design and implementation of the two pending pivotal Phase 3 trials required for filing a New Drug Application (NDA) with the US Food and Drug Administration (FDA).

Based on the Company's July 2008 FDA meeting, final Phase 3 studies for MoxDuo™IR will include a "combination rule" trial in patients experiencing post-surgery (bunionectomy) pain that compares MoxDuo™IR against morphine alone and oxycodone alone, and a low dose MoxDuo™IR controlled study of the effectiveness of a flexible dose regimen of MoxDuo™IR in patients following total knee replacement. No additional pharmacology, toxicology or long-term clinical safety studies will be required for regulatory submission and market approval.

QRxPharma plans to launch MoxDuo™IR in the US marketplace in 2011.

The Company is also excited to report the entry of a second MoxDuo™ product into the clinic with the initiation of a Phase 2 comparative proof-of-concept study evaluating the efficacy and safety of MoxDuo™IV (an intravenous morphine plus oxycodone formulation) against IV morphine for the treatment of moderate to severe post-operative pain. The study involves 40 patients recovering from hip replacement surgery and is being conducted at the Cologne-Merheim Medical Center, a part of Witten/ Herdecke University, and Cologne University Hospital, both in Cologne, Germany.

Data from this study will serve as a significant predictor of MoxDuo™IV clinical benefits and provide guidance for the design of further clinical trials leading to an Investigational New Drug (IND) submission to the FDA in 2010.

In addition, QRxPharma is on track to initiate its first Phase 1 study of MoxDuo™CR, a continuous release Dual-Opioid™, by the end of calendar year 2009. MoxDuo™CR is designed to provide 12 hours of pain relief in patients with moderate to severe pain. This proprietary formulation encompasses not only sustained delivery technology, but also technologies to deter abuse and tampering.

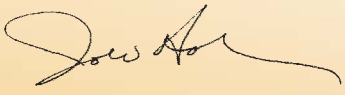
Our small molecule development program for neurological disorders continues to move forward with the University of Alabama (Caldwell Labs) under a collaborative research agreement. Preclinical trials, supported in part by the Michael J. Fox Foundation - are presently underway to evaluate QRxPharma's lead drug candidates for Parkinson's disease.

Business development efforts also continue to proceed with QRxPharma's Venomics platform to secure strategic relationships for the clinical and commercial development of these venom-derived coagulants and anti-coagulants.

The foundation of our success is people and patents. Our progress over this year would not have been possible without the exceptional efforts of our management team and staff. I am very grateful for their important contributions. We are executing well on all three cornerstones of our business, including clinical, financial and business development, while remaining conservative with resources. Further, our patent portfolio is enriched this year with several key submissions that expand our opportunities with our Dual-Opioid™ platform to extend exclusivity beyond 2029, as well as other key patent applications surrounding the growing value of our neurodegenerative disease opportunities.

QRxPharma has had a very successful year. We've completed planned trials ahead of schedule, exceeded expectations in terms of study results, and clearly demonstrated the value of our Dual-Opioid™ platform. We believe the MoxDuo™ product portfolio, including immediate release, controlled release and intravenous formulations, will offer a broader selection of analgesic options to pain specialists and significantly improve patient care - providing equal or better analgesia with fewer and/or less intense side effects than current standards of care.

I look forward to an exciting year ahead.



John W Holaday, PhD
Managing Director and Chief Executive Officer

WHAT KEY OPINION LEADERS ARE SAYING:

ON CURRENT PAIN THERAPIES...

"Pain is poorly controlled." *Pain Specialist - Atlanta*

"We need a better tolerated product. Less side effects." *Orthopedic Surgeon - Los Angeles*

"Side effects. Constipation. The patient is spaced out, drowsy, itching. Most are not happy or comfortable." *Pain Specialist - Los Angeles*

ON MOXDUO™...

"Fascinating. I've never seen a combination of two narcotics. I've seen it combined with anti-inflammatories. This is great. Requires a smaller amount and it's symbiotic." *Orthopedic Surgeon - Atlanta*

"It has real advantages. The same pain relief but less side effects. Increases safety of the patient." *Pain Specialist - Atlanta*

"I like it. A reduction in all the side effects [we mentioned]. Low potential for sedation. Absolutely key for the elderly. No increase in side effects if you increase the dose. It's better." *Podiatrist - Los Angeles*

Disclaimer: This KOL research was conducted after results of the 021 study. Product profile presented the 50% - 75% reductions in AEs seen in the 021 study.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of QRxPharma Limited (referred to hereafter as the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2009.

DIRECTORS

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

Peter C Farrell

R Peter Campbell

Gary W Pace

Michael A Quinn

John W Holaday

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Group consisted of the development and commercialisation of biopharmaceutical products based on largely Australian research, targeting the US market.

DIVIDENDS - QRXPHARMA LIMITED

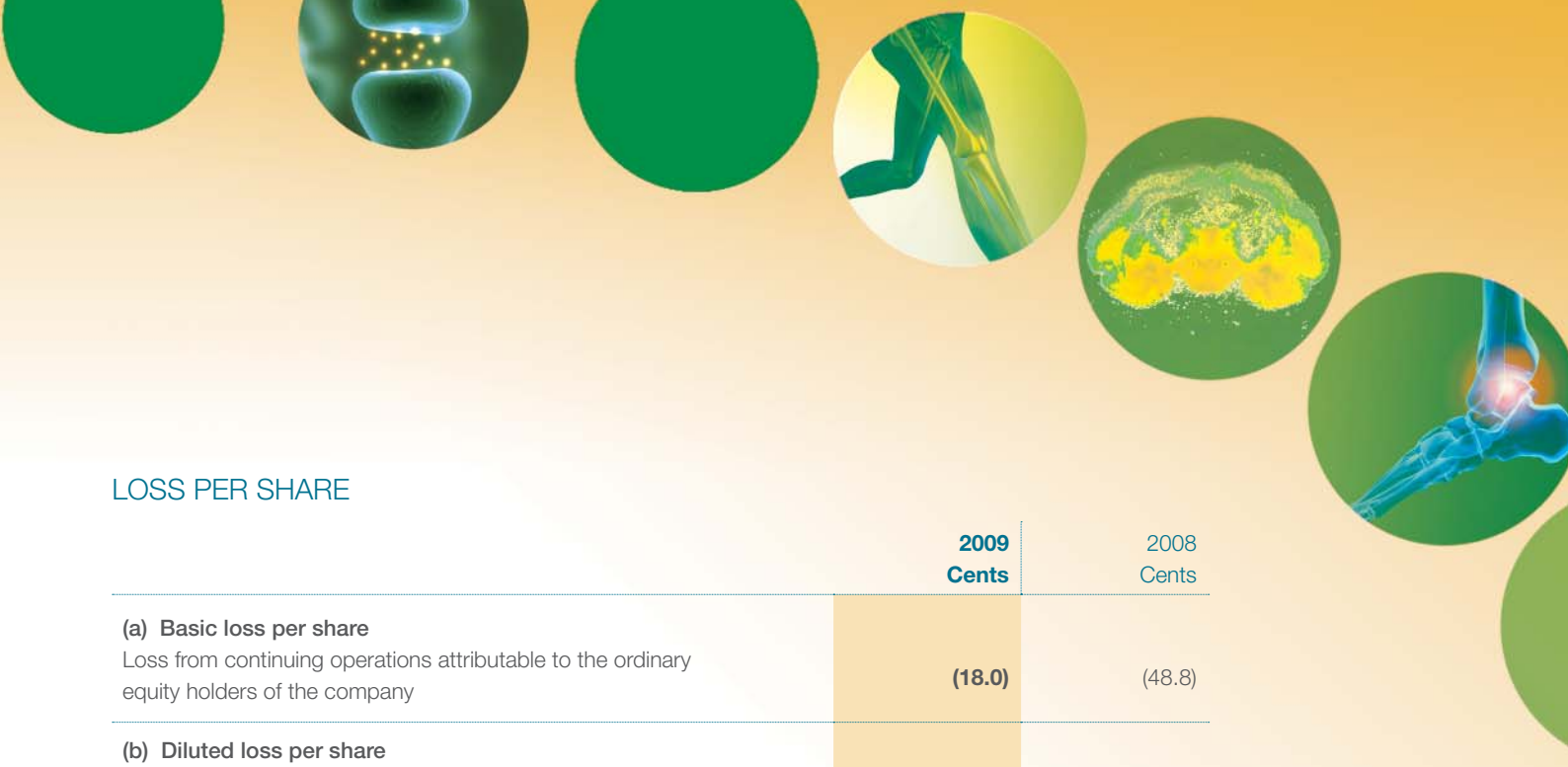
No dividends were paid or declared since the start of the financial year (2008: $nil).

REVIEW OF OPERATIONS

The Group has made a loss from ordinary activities after income tax for the year of $13.5 million (2008: loss of $36.6 million). The loss was in line with the expectations of the Board of Directors and resulted from fulfilling research and development activities in the progression of the Company's clinical pipeline candidates and preclinical stage drugs. The results were favourably impacted by foreign exchange gains of $5.3 million (2008: $2.6 million loss) arising from holding cash reserves primarily in US dollars. In addition, the prior year loss included an impairment charge relating to the Torsin IP of $14.6 million. (2009: $nil)

The Company continues to closely monitor its cash position as it progresses the MoxDuo™ Phase 3 development programme, and retains $17.8 million in cash reserves at 30 June 2009.

Further information on the operations and financial position of the Group and its business strategies and prospects is set out on pages 5 to 6 of this annual report.



LOSS PER SHARE

	2009 Cents	2008 Cents
(a) Basic loss per share Loss from continuing operations attributable to the ordinary equity holders of the company	**(18.0)**	(48.8)
(b) Diluted loss per share Loss from continuing operations attributable to the ordinary equity holders of the company	**(18.0)**	(48.8)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the Group's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

ENVIRONMENTAL REGULATION

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

DIRECTORS' REPORT (CONTINUED)

INFORMATION ON DIRECTORS

Peter C Farrell PhD, ScD, AM. *Non Executive Chairman.*

Experience and expertise

Dr Farrell has over 30 years executive and consulting experience in the medical device industry.

Dr Farrell is a Fellow of several professional bodies, including the Australian Institutes of Management and Company Directors. He is the Vice Chair of the Executive Council of the Division of Sleep Medicine at Harvard Medical School, he serves on the Board of Trustees of University of California, San Diego (UCSD) and is on the Health Sciences Advisory Board of the Dean of Medicine and the Advisory Board of UCSD's Jacobs School of Engineering. Dr Farrell is also a Visiting Professor at the University of New South Wales Graduate School for Biomedical Engineering, of which he was founding Director in 1978.

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

Other current directorships

Dr Farrell is the Chairman of ResMed Inc (ASX and NYSE: RMD), which he founded in 1989. He is also a Director of Pharmaxis Limited (ASX: PXS) (director since March 2006) and Nuvasive Inc (NASDAQ: NUVA) (director since January 2005) serving on the nominations and governance committees.

Former directorships in last 3 years

Nil.

Special responsibilities

Chairman of the Board.

Chairman of nominations committee.

Chairman of remuneration committee.

Interests in shares and options

1,380,540 ordinary shares and 604,089 options over ordinary shares.

John W Holaday PhD. *Managing Director and Chief Executive Officer.*

Experience and expertise

Dr Holaday brings four decades of experience as a scientist, founder and executive manager of biotechnology and biopharmaceutical companies, and as a banker. Dr Holaday has extensive experience in building publicly traded specialty pharmaceutical companies. In 1992, Dr Holaday was a co¬-founder of EntreMed Inc (NASDAQ: ENMD), of which he served as President, Chief Executive Officer, and Chairman of the Board. In 1988, Dr Holaday also co-founded Medicis Pharmaceutical Corporation (NYSE: MRX), where he served as a Board Director, as Scientific Director, and as Senior Vice President for Research and Development. Dr Holaday also founded MaxCyte Inc, a cell therapy company, where he served as Chairman until retiring in 2003. He founded HarVest Bank of Maryland in 2004, served as Chairman until 2006 and remains on the Board. Dr Holaday was founder, Chairman and Chief Executive Officer of CNSCo, Inc, a private company which was acquired by the Group on 26 April 2007.

Dr Holaday currently serves as an officer and Fellow in several biomedical societies, has authored and edited over 200 scientific articles in journals and books, and holds over 60 patents. He served as Chairman of the Maryland BioAlliance, was a Judge for the Ernst and Young Entrepreneur of the Year Award (2003 to 2008) and was named to the Ernst and Young Entrepreneur of the Year Hall of Fame in 2006. Dr. Holaday served as a Captain, US Army, until 1972, and as managing founder of the Neuropharmacology Branch at the Walter Reed Army Institute of Research until 1988. Dr Holaday was formerly an Associate Professor of Anaesthesiology and Critical Care Medicine and Senior Lecturer in Medicine at The Johns Hopkins University of Medicine and remains as Adjunct Professor of Psychiatry at the Uniformed Services University School of Medicine, Bethesda, Maryland. Dr Holaday obtained his Doctorate in Pharmacology at the University of California, San Francisco in 1977.

Other current directorships
Nil

Former directorships in last 3 years
Nil

Special responsibilities
Managing Director and Chief Executive Officer.

President of QRxPharma, Inc.

Member of remuneration committee.

Interests in shares and options
7,543,000 ordinary shares (including ordinary shares held by John Holaday and John Holaday as trustee for the John Holaday Foundation) and 805,452 options over ordinary shares.

R Peter Campbell FCA, FTIA. *Non Executive Director.*

Experience and expertise
Mr Campbell is a Chartered Accountant and company Director with more than 35 years of business consulting and advisory experience, and operates his own chartered accountancy practice based in Sydney. He is a fellow of both the Institute of Chartered Accountants in Australia and the Taxation Institute of Australia and is a registered company auditor.

Other current directorships
Director and Chair of the audit committees of Silex Systems Limited (ASX: SLX) (director since July 1996), Sonic Healthcare Limited (ASX: SHL) (director since January 1993), and Admerex Limited (ASX: ADL) (director since January 2007).

Former directorships in last 3 years
Non-executive director of SciGen Limited (ASX: SIE) from August 1999 to February 2005.

Special responsibilities
Chairman of audit and risk committee.

Member of nominations committee.

Interests in shares and options
85,000 ordinary shares and 241,635 options over ordinary shares.

Gary W Pace PhD. *Non-Executive Director and Consultant.*

Experience and expertise

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

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

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

Other current directorships

Director of ResMed Inc (ASX and NYSE: RMD) (since 1995), Transition Therapeutics Inc (TSX and NASDAQ: TTH;) (since 2002), Celsion Corp (AMX: CLN) (since 2002) and Peplin Limited (ASX: PEP) (since June 2004).

Former directorships in last 3 years

Resonance Health Limited (ASX: RHT) (April 2006 to August 2007)

Special responsibilities

Nil

Interests in shares and options

3,230,083 ordinary shares and 402,726 options over ordinary shares.

Michael A Quinn MBA. *Non-Executive Director.*

Experience and expertise

Mr Quinn is managing partner of Innovation Capital and has more than 30 years executive experience in technology companies in Australia, the US and the UK. Mr Quinn holds a Bachelor of Science, a Bachelor of Economics, and an MBA from Harvard. Mr Quinn is Chairman of the New South Wales Entrepreneurship Centre Limited, a not-for-profit organisation that trains entrepreneurs. In 1983 he co-founded Memtec Limited (NYSE and ASX), and has also served as Chief Executive Officer of an ASX listed manufacturer and distributor of health care and scientific products. Mr Quinn has been a Director of several listed companies in Australia, the US and the UK and numerous unlisted life science and other technology based companies.

Other current directorships

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

Former directorships in last 3 years

Nil.

Special responsibilities

Member of nominations committee.

Member of audit and risk committee.

Member of remuneration committee.

Interests in shares and options

8,297,307 ordinary shares (including ordinary shares held by Innovation Capital Limited, Innovation Capital LLC and Kaylara Pty Limited).
402,726 options over ordinary shares (including options held by Innovation Capital Limited and Innovation Capital LLC).

COMPANY SECRETARY

Chris J Campbell holds a Bachelor of Commerce and is an Associate of the Institute of Chartered Accountants in Australia. He also holds the position of Chief Financial Officer of QRxPharma Limited. He has over 25 years experience with major accounting firms and as CFO of publicly traded companies.

MEETINGS OF DIRECTORS

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2009, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of non-executive directors		Meetings of committees					
					Audit and risk		Nominations		Remuneration	
	A	B	A	B	A	B	A	B	A	B
Peter C Farrell	4	4	4	4	**		1	1	4	4
John W Holaday*	4	4			**		**		4	4
R Peter Campbell	4	4	4	4	6	6	1	1	**	
Gary W Pace	4	4	4	4	**		**		**	
Michael A Quinn	4	4	4	4	6	6	1	1	4	4

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year
* = Not a non executive director
** = Not a member of the relevant committee

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Share-based compensation

E Additional information.

The information provided in the remuneration report has been audited as required by section 308 (3C) of the *Corporations Act 2001*.

A Principles used to determine the nature and amount of remuneration

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

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

- competitiveness and reasonableness
- acceptability to shareholders
- transparency

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

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

Non-executive directors

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

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

Executive pay

The executive pay and reward framework has three components:

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

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

Base pay

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

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

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

Benefits

Executives receive benefits including health insurance and tax advisory services.

Superannuation

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

Short-term incentives

A variable cash incentive component is payable annually dependant upon achievement of performance targets. Individual performance targets are set by reference to components of the Group's business plan for which the individual executive is responsible.

Long-term incentives

Long-term incentives are provided to certain employees through participation in the QRxPharma Limited Employee Share Option Plan.

B Details of remuneration

Amounts of remuneration

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

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

- Warren C Stern, PhD – Executive Vice President, Drug Development
- Chris J Campbell – Chief Financial Officer and Company Secretary
- Joseph J Berry – Vice President Operations
- Philip J Magistro – Vice President Commercial Operations
- Patricia T Richards, MD – Chief Medical Officer

DIRECTORS' REPORT (CONTINUED)

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

2009	Short-term employee benefits				Post-employment benefits		Long-term benefits	Share-based payments	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Other $	Super-annuation $	Retirement benefits $	Long service leave $	Options $	Total $
Non executive directors									
Peter C Farrell	60,000	-	-	-	-	-	-	141,155	201,155
R Peter Campbell	40,000	-	-	-	3,600	-	-	56,462	100,062
Michael A Quinn	40,000	-	-	-	-	-	-	94,104	134,104
Gary W Pace	40,000	-	-	-	-	-	-	125,088	165,088
Sub-total non-executive directors	**180,000**	**-**	**-**	**-**	**3,600**	**-**	**-**	**416,809**	**600,409**
Executive directors									
John W Holaday	404,733	132,511	-	-	-	-	-	250,176	787,420
Other key management personnel (Group)									
Warren C Stern ^	311,677	121,674	-	-	-	-	-	252,287	685,638
Chris J Campbell ^	204,644	57,881	-	-	23,626	-	-	104,416	390,567
Joseph J Berry ^	307,257	91,255	-	-	-	-	-	30,794	429,306
Philip J Magistro ^	311,677	91,255	-	-	-	-	-	40,495	443,427
Patricia T Richards ^	343,355	101,395	-	-	-	-	-	107,178	551,928
Total key management personnel compensation (Group)	**2,063,343**	**595,971**	**-**	**-**	**27,226**	**-**	**-**	**1,202,155**	**3,888,695**

^ denotes one of the highest paid executives of the company, as required to be disclosed under the *Corporations Act 2001*.

Gary Pace was paid $131,532 for consulting services provided to the Company during the year.

Key management personnel and other executives of QRxPharma Limited and the Group were the same in 2008

2008	Short-term employee benefits				Post-employment benefits		Long-term benefits	Share-based payments	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Other $	Super-annuation $	Retirement benefits $	Long service leave $	Options $	Total $
Non executive directors									
Peter C Farrell	60,000	-	-	-	-	-	-	296,083	356,083
R Peter Campbell	40,000	-	-	-	3,600	-	-	118,433	162,033
Michael A Quinn	40,000	-	-	-	-	-	-	197,388	237,388
Gary W Pace	59,765	-	-	-	-	-	-	278,241	338,006
Sub-total non-executive directors	**199,765**	**-**	**-**	**-**	**3,600**	**-**	**-**	**890,145**	**1,093,510**
Executive directors									
John W Holaday	350,000	146,250	-	-	-	-	-	556,482	1,052,732
Other key management personnel (Group)									
Douglas A Saltel *(resigned 7 March 2008)*	208,788	56,744	-	-	-	-	-	-	265,532
Warren C Stern ^	227,665	90,879	-	-	-	-	-	556,482	875,026
Chris J Campbell ^	197,248	75,000	-	-	24,502	-	-	228,017	524,767
Joseph J Berry ^ *(appointed 12 November 2007)*	150,550	70,458	-	-	-	-	-	32,598	253,606
Philip J Magistro ^ *(appointed 26 November 2007)*	147,684	73,528	-	-	-	-	-	43,463	264,675
Patricia T Richards ^ *(appointed 18 February 2008)*	99,533	29,860	-	-	-	-	-	54,026	183,419
Total key management personnel compensation (Group)	**1,581,233**	**542,719**	**-**	**-**	**28,102**	**-**	**-**	**2,361,213**	**4,513,267**
Other Group executives									
Terrence F Sayer (Company Secretary) *(resigned 6 February 2008)*	-	-	-	-	-	-	-	-	-

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

Gary Pace was paid $239,443 for consulting services provided to the Company during the year, after ceasing as an employee on 30 September 2007.

Terrence F Sayer was paid $53,120 for Accounting and Office Services and Company Secretarial duties provided to the Company during the year.

Key management personnel and other executives of the Group

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

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	**2009**	2008	**2009**	2008	**2009**	2008
Directors of QRxPharma Limited						
John W Holaday	83%	86%	17%	14%	-	-
Peter C Farrell	100%	100%	-	-	-	-
R Peter Campbell	100%	100%	-	-	-	-
Michael A Quinn	100%	100%	-	-	-	-
Gary W Pace	100%	100%	-	-	-	-
Other key management personnel of the Group						
Douglas A Saltel *(resigned 7 March 2008)*	-	79%	-	21%	-	-
Warren C Stern	82%	90%	18%	10%	-	-
Chris J Campbell	85%	86%	15%	14%	-	-
Joseph J Berry	79%	72%	21%	28%	-	-
Philip J Magistro	79%	72%	21%	28%	-	-
Patricia T Richards	82%	84%	18%	16%	-	-

C Service agreements

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

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

John W Holaday, *Managing Director and Chief Executive Officer*

- Term of agreement – 3 years (with annual extension) renegotiated from 20 February 2009.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2009 of US$300,000, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the annual base salary and a bonus component of US$130,000.

Warren C Stern, *Executive Vice President Drug Development*

- Term of agreement – 3 years (with annual extension) commencing 14 April 2007.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2009 of US$262,500 to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the annual base salary and a bonus component of US$100,000.

Joseph J Berry, *Vice President Operations*

- Term of agreement – ongoing, commencing 12 November 2007.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2009 of US$236,250, to be reviewed annually by the remuneration committee.

Philip J Magistro, *Vice President Commercial Operations*

- Term of agreement – ongoing commencing 26 November 2007.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2009 of US$236,250, to be reviewed annually by the remuneration committee.

Patricia T Richards, *Chief Medical Officer*

- Term of agreement – ongoing, commencing 18 February 2008.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2009 of US$262,500, to be reviewed annually by the remuneration committee.

Chris J Campbell, *Chief Financial Officer*

- Term of agreement – ongoing, commencing 1 March 2007.
- Base salary, inclusive of superannuation, for the year ended 30 June 2009 of $225,750, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination without notice by the Company, other than for gross misconduct, equal to 3 months salary.

Gary W Pace, *Non-Executive Director, Consultant*

- Term of agreement – 1 year, renegotiated from 25 May 2009.
- Base consulting fee for the contract year ending 25 May 2009 of US$100,000 (pro rata).
- No termination benefit payable on early termination by the Company.

D Share-based compensation

Options

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

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

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

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

DIRECTORS' REPORT (CONTINUED)

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

Grant date	Vested and exercisable	Expiry date	Exercise price	Value per option at grant date
31 March 2007	Over 3 years	31 March 2014	$1.42	$1.31
14 April 2007	Over 3 years	14 April 2014	$1.00	$1.46
25 May 2007	Over 3 years	25 May 2014	$1.00	$1.46
25 May 2007	Over 3 years	25 May 2014	$2.00	$1.15
1 September 2007	Over 3 years	1 September 2014	$1.70	$0.98
1 October 2007	Over 3 years	1 October 2014	$1.45	$0.83
9 October 2007	Over 3 years	9 October 2014	$1.34	$0.77
1 January 2008	Over 3 years	1 January 2015	$1.11	$0.64
1 April 2008	Over 3 years	1 April 2015	$1.05	$0.60
1 April 2008	Over 3 years	1 April 2015	$1.04	$0.60
1 October 2008	Over 3 years	1 October 2015	$0.60	$0.24
4 November 2008	Over 6 months	4 November 2015	$0.37	$0.07
1 January 2009	Over 6 months	1 January 2016	$0.20	$0.10
1 January 2009	Over 3 years	1 January 2016	$0.20	$0.10

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

Details of options over ordinary shares in the company provided as remuneration to each director of QRxPharma Limited and each of the key management personnel of the parent entity and the Group are set out below. When exercisable, each option is convertible into one ordinary share of QRxPharma Limited. Further information on the options is set out in note 26 to the financial statements.

	Number of options granted during the year		Number of options vested during the year	
Name	**2009**	2008	**2009**	2008
Directors of QRxPharma Limited				
Peter C Farrell	**-**	-	**201,363**	201,363
R Peter Campbell	**-**	-	**80,545**	80,545
Michael A Quinn	**-**	-	**134,242**	134,242
Gary W Pace	**-**	-	**134,242**	134,242
John W Holaday	**-**	-	**268,484**	268,484
Other key management personnel				
Warren C Stern	**75,000**	-	**268,484**	268,484
Chris J Campbell	**75,000**	-	**134,242**	134,242
Joseph J Berry	**60,000**	150,000	**50,000**	-
Philip J Magistro	**60,000**	200,000	**66,667**	-
Patricia T Richards	**60,000**	500,000	**166,667**	-

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a binomial 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 2009 included:

(a) Options are granted for no consideration and generally vest over 3 years (see page 19)

(b) Exercise price: $0.20 to $0.60 (2008: $1.05 to $1.11)

(c) Grant date: 1 October 2008 to 1 January 2009 (2008: 1 January 2008 to 1 April 2008)

(d) Expiry date: 4 May 2009 to 1 January 2016 (2008: 1 January 2015 to 1 April 2015)

(e) Expected price volatility of the company's shares: 60% to 80% (2008: 60%)

(f) Expected dividend yield: nil% (2008: nil%)

(g) Risk free interest rate: 5.18% (2008: 6.25%).

Shares provided on exercise of remuneration options

No ordinary shares in the company have been provided as a result of the exercise of remuneration options to any director of QRxPharma Limited or other key management personnel of the Group for the financial year ended 30 June 2009 or 30 June 2008.

Share-based compensation: Options

	A	B	C	D	E
Name	Remuneration consisting of options	Value at grant date $	Value at exercise date $	Value at lapse date $	Total of columns B-D $
Peter C Farrell	70.2%	-	-	-	-
R Peter Campbell	58.5%	-	-	-	-
Michael A Quinn	70.2%	-	-	-	-
John W Holaday	31.8%	-	-	-	-
Gary W Pace	75.8%	-	-	-	-
Warren C Stern	36.8%	7,443	-	-	7,443
Chris J Campbell	26.7%	7,443	-	-	7,443
Joseph Berry	7.2%	5,954	-	-	5,954
Philip Magistro	9.1%	5,954	-	-	5,954
Patricia Richards	19.4%	5,954	-	-	5,954

A = The percentage of the value of remuneration consisting of options, based on the value of options expenses during the current year.

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

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

Shares under option

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

Date options granted	Expiry date	Issue price of shares	Number under option
31 March 2007	31 March 2014	$1.42	402,726
14 April 2007	14 April 2014	$1.00	2,013,630
25 May 2007	25 May 2014	$1.00	552,726
25 May 2007	25 May 2014	$2.00	1,448,450
25 May 2007	25 May 2010	$2.20	322,181
1 September 2007	1 September 2014	$1.70	50,000
1 October 2007	1 October 2014	$1.45	75,000
9 October 2007	9 October 2014	$1.34	50,000
1 January 2008	1 January 2015	$1.11	350,000
1 April 2008	1 April 2015	$1.05	600,000
1 April 2008	1 April 2015	$1.04	75,000
1 October 2008	1 October 2015	$0.60	50,000
4 November 2008	4 November 2015	$0.37	100,000
1 January 2009	1 January 2016	$0.20	710,000
			6,799,713

Shares issued on the exercise of options

No ordinary shares have been issued during the year ended 30 June 2009 on the exercise of options granted under the QRxPharma Limited Employee Option Plan

INDEMNIFICATION

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

INSURANCE OF OFFICERS

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

NON-AUDIT SERVICES

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

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

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

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

	Consolidated	
	2009	2008
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**129,250**	86,000
Total remuneration for audit services	**129,250**	86,000
2. Non audit services		
PricewaterhouseCoopers Australian firm:		
Taxation services	**88,885**	99,270
Related practices of PricewaterhouseCoopers Australian firm	**66,218**	11,554
Total remuneration for non-audit services	**155,103**	110,824

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 24.

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 directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

AUDITOR

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

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

Peter C Farrell
Director

Sydney
21 August 2009

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
www.pwc.com/au

Auditor's Independence Declaration

As lead auditor for the audit of QRxPharma Limited for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Manoj Santiago
Partner
PricewaterhouseCoopers

Sydney
21 August 2009

CORPORATE GOVERNANCE STATEMENT

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

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. They comply with the August 2007 ASX *Principles of Good Corporate Governance and Best Practice Recommendations*.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

The responsibilities of the board include:

- overseeing the business and strategic direction of the Group in order to maximise performance and generate appropriate levels of shareholder return
- ensuring that management establishes and follows an appropriate system of internal controls, risk management and legal compliance
- reviewing the performance and implementation of corporate strategies by senior management and ensuring senior management have the necessary resources to do so
- approving and supervising significant capital expenditure, capital management, acquisitions and divestments
- appointment, performance assessment and, if necessary, removal of the Chairman, Chief Executive Officer, Chief Financial Officer and the Company Secretary
- approving and monitoring annual budgets and strategic plans
- approving and monitoring financial and other reporting made to shareholders and the ASX under the continuous disclosure regime.

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

A performance assessment for senior executives last took place in July 2009 during the remuneration committee's annual assessment of performance bonuses. To help make this assessment, the committee receives detailed reports on performance from management.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The board operates in accordance with the broad principles set out in its charter which is available from the corporate governance information section of the company website at www.qrxpharma.com. The charter details the board's composition and responsibilities.

Board composition

The charter states:

- the board is committed to ensuring that there will be a least five directors of whom a majority will be non executive directors. Non-executive directors bring a fresh perspective to the board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management
- where possible the non executive directors be independent. This is in recognition of the importance of independent views and the board's role in supervising the activities of management and independent judgement in board decision making
- the board is also committed to ensuring that its members have a broad range of skills, experience and expertise. This will assist the board to maximise performance and ensure appropriate levels of shareholder return
- the board is required to undertake an annual review of its performance and Charter to ensure that it is operating effectively and in the best interests of the Group

The board seeks to ensure that:

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Directors' independence

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

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

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

Recent thinking on corporate governance has introduced the view that a director's independence may be perceived to be impacted by lengthy service on the board. To avoid any potential concerns, the board has determined that a director will not be deemed independent if he or she has served on the board of the company for more than ten years.

The board assesses independence each year. To enable this process, the directors must provide all information that may be relevant to the assessment.

Board members

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

Non executive directors

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

Term of office

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

Chair

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

Chief Executive Officer (CEO)

The CEO is responsible for implementing Group strategies and policies.

Commitment

The number of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2009, and the number of meetings attended by each director is disclosed on page 13.

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

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

Independent professional advice

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

Avoidance of conflict of interest

In addition to the issue of independence, the directors have a continuing responsibility to avoid conflicts of interest (both real and apparent) between their duty to the Company and their own interests. Directors are required to disclose any actual or potential

conflict of interest on appointment and are required to keep this disclosure up to date. A director that has an actual or potential conflict must immediately inform the board and remove themselves from any discussions or decision making in relation to the actual or potential conflict.

Performance assessment

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

Board committees

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

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

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

Nominations committee

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

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

The nominations committee operates in accordance with its charter which is available on the Company website. The nominations committee assists the board to discharge its responsibilities with regards to overseeing the composition of the board and competencies of directors together with developing procedures to assess the performance of directors. Further, advise the board on appointment and evaluation of the Managing Director and to develop succession plans for the board, Managing Director and senior management.

The main responsibilities of the committee include:

- reviewing management succession planning for the Company in general but specifically in regards to the CEO and other senior management
- reviewing the appointments and terminations to senior executive positions reporting to the CEO
- reviewing and making recommendations to the board regarding the appointment of non executive directors, including:
    - periodically assessing the appropriate mix of skills, experience and expertise required on the board and assessing the extent to required which skills are represented on the board
    - establishing processes for identification of suitable candidates for appointment to the board
    - monitoring the length of service of current board members, considering succession planning issues and identifying the likely order of retirement by rotation of non-executive directors
    - establishing processes for the review of the performance of individual non-executive directors, the board and board committees.

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

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

Over the past year the board has conducted the affairs of the Company in accordance with principles of good corporate governance and has required that at all times all Group personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Group policies.

The Company is developing a Code of Conduct to guide the board, individual directors and senior management as to the practices necessary to maintain confidence in the Group's integrity with key stakeholders and the wider community together with the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Company maintains a Securities Trading Policy which is available on the company website. All directors, officers and employees are prohibited from dealing in any QRxPharma Limited securities, except while not in possession of unpublished price sensitive information. It is also contrary to the Company's policy for directors, officers and employees to be engaged in short term trading of the Company's securities. Directors, officers and employees may only deal in the Company's securities during a specified period of 45 days after the release of the Company's results or after the AGM. Directors must obtain the approval of the Chairman and employees the approval of the Company Secretary prior to dealing in the Company's securities outside those periods.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and risk committee

The audit and risk committee is currently comprised of R Peter Campbell (Chairman) and Michael A Quinn, both non executive directors.

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

The audit committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industry in which the Group operates.

The audit committee operates in accordance with a charter which is available on the Company website. The audit and risk committee assist the board to discharge its responsibilities relating to the effectiveness of the control environment and risk management framework in the areas of operational and balance sheet risk, legal/regulatory compliance and financial reporting, together with the effectiveness and independence of the external audit process.

The main responsibilities of the committee include:

- overseeing the Company's relationship with the external auditor (including forming a policy on the provision of non audit services and the rotation of external audit personnel on a regular basis) and the external audit function in general. This includes recommending to the board the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, the scope and quality of the audit and assess performance
- overseeing the adequacy of the control processes in place in relation to the preparation of financial statements and reports
- overseeing the adequacy of the Company's financial controls and systems
- overseeing the process of identification and management of business, financial and commercial risks.

In fulfilling its responsibilities, the audit committee:

- receives regular reports from management and external auditors
- meets with the external auditors at least twice a year, or more frequently if necessary
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- provides the external auditors with a clear line of direct communication at any time to the audit committee.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors

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

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

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

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

Continuous disclosure and shareholder communication

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

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

The Company has detailed this commitment in a Shareholder Communication Policy which is available on the Company website.

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

The Company website provides general information and reports on the Group, inclusive of ASX announcements, investor presentations, and a link to ASX website which displays the share price, share price movements and other market information.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The board, through the audit committee, is responsible for ensuring there is an adequate framework in relation to risk management, compliance and internal control systems. In summary, the framework is designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

The CEO and CFO have made the following certifications to the board:

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

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration Committee

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

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

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

The main responsibilities of the committee include:

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

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

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

FINANCIAL REPORT

This financial report covers both QRxPharma Limited as an individual entity and the consolidated entity consisting of QRxPharma Limited and its subsidiaries. The financial report is presented in the Australian currency.

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

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

A description of the nature of the consolidated entity's operations and its principal activities is included in the CEOs review on pages 5 to 6 and in the directors' report on pages 8 to 23, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 20 August 2009. The company has the power to amend and reissue the financial report.

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

www.qrxpharma.com

QRxPHARMA LIMITED ABN 16 102 254 151

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	Consolidated		Parent	
		2009	2008	**2009**	2008
		$'000	$'000	**$'000**	$'000
Revenue from continuing operations	5	**719**	2,009	**710**	2,009
Other income	6	**5,474**	-	**6,193**	515
Research and development	7	**(11,937)**	(12,708)	**(14,480)**	(13,970)
Employee benefits expense	7	**(6,191)**	(5,298)	**(2,422)**	(2,838)
Depreciation and amortisation	7	**(29)**	(822)	**(13)**	(16)
Business Development		**(212)**	(241)	**(206)**	(241)
Other expenses		**(1,319)**	(2,421)	**(1,908)**	(2,807)
Net foreign exchange (loss)	7	**-**	(2,618)	**-**	(2,648)
Impairment of financial asset	12	**-**	-	**(749)**	(17,117)
Impairment of intangible asset	14	**-**	(14,628)	**-**	-
Loss before income tax		**(13,495)**	(36,727)	**(12,875)**	(37,113)
Income tax benefit	8	**-**	125	**-**	125
Loss from continuing operations		**(13,495)**	(36,602)	**(12,875)**	(36,988)
Loss for the year		**(13,495)**	(36,602)	**(12,875)**	(36,988)

Earnings per share for loss attributable to the ordinary equity holders of the company:		**Cents**	Cents
Basic loss per share	25	**(18.0)**	(48.8)
Diluted loss per share	25	**(18.0)**	(48.8)

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

QRxPHARMA LIMITED ABN 16 102 254 151

BALANCE SHEETS

AS AT 30 JUNE 2009

	Notes	Consolidated		Parent	
		2009	2008	**2009**	2008
		$'000	$'000	**$'000**	$'000
ASSETS					
Current assets					
Cash and cash equivalents	9	**17,773**	29,672	**17,552**	29,583
Trade and other receivables	10	**66**	158	**94**	135
Other current assets	11	**566**	458	**220**	119
Total current assets		**18,405**	30,288	**17,866**	29,837
Non-current assets					
Other financial assets	12	**-**	-	**2,341**	2,605
Property, plant and equipment	13	**274**	73	**24**	37
Intangible assets	14	**-**	-	**-**	-
Total non-current assets		**274**	73	**2,365**	2,642
Total assets		**18,679**	30,361	**20,231**	32,479
LIABILITIES					
Current liabilities					
Trade and other payables	15	**1,684**	2,024	**3,263**	4,169
Total current liabilities		**1,684**	2,024	**3,263**	4,169
Total liabilities		**1,684**	2,024	**3,263**	4,169
Net assets		**16,995**	28,337	**16,968**	28,310
EQUITY					
Contributed equity	16	**79,694**	79,694	**79,694**	79,694
Reserves	17(a)	**5,737**	3,584	**5,432**	3,899
Accumulated losses	17(b)	**(68,436)**	(54,941)	**(68,158)**	(55,283)
Total equity		**16,995**	28,337	**16,968**	28,310

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

QRxPHARMA LIMITED ABN 16 102 254 151

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	Consolidated		Parent	
		2009	2008	**2009**	2008
		$'000	$'000	**$'000**	$'000
Total equity / (deficiency in capital) at the beginning of the financial year		**28,337**	61,980	**28,310**	62,024
Loss for the year		**(13,495)**	(36,602)	**(12,875)**	(36,988)
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	16	**-**	(238)	**-**	(238)
Employee shares and share options	17	**1,533**	3,512	**1,533**	3,512
Foreign currency translation	17	**620**	(315)	**-**	-
		2,153	2,959	**1,533**	3,274
Total equity at the end of the financial year		**16,995**	28,337	**16,968**	28,310

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

QRxPHARMA LIMITED ABN 16 102 254 151

CASH FLOW STATEMENTS

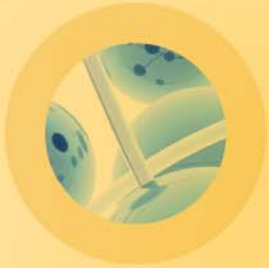
FOR THE YEAR ENDED 30 JUNE 2009

	Notes	Consolidated		Parent	
		2009	2008	**2009**	2008
		$'000	$'000	**$'000**	$'000
Cash flows from operating activities					
Payments to suppliers and employees (inclusive of goods and services tax)		**(17,956)**	(15,822)	**(18,103)**	(12,669)
Interest received		**813**	1,550	**616**	1,550
Income tax R&D receipt	8	**-**	125	**-**	125
Grant received	6	**150**	-	**150**	-
Net cash outflow from operating activities	24	**(16,993)**	(14,147)	**(17,337)**	(10,994)
Cash flows from investing activities					
Payments for property, plant and equipment		**(230)**	(68)	**-**	(28)
Payments for shares issued in subsidiary	12	**-**	-	**(2)**	(3,252)
Proceeds (payments) for held-to-maturity investments		**-**	10,846	**-**	10,846
Net cash inflow / (outflow) from investing activities		**(230)**	10,778	**(2)**	7,566
Cash flows from financing activities					
Payments made in relation to IPO		**-**	(31)	**-**	(31)
Net cash inflow / (outflow) from financing activities		**-**	(31)	**-**	(31)
Net (decrease) / increase in cash and cash equivalents		**(17,223)**	(3,400)	**(17,339)**	(3,459)
Cash and cash equivalents at the beginning of the financial year		**29,672**	35,690	**29,583**	35,690
Effects of exchange rate changes on cash and cash equivalents		**5,324**	(2,618)	**5,308**	(2,648)
Cash and cash equivalents at end of year	9	**17,773**	29,672	**17,552**	29,583

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

NOTES TO THE FINANCIAL STATEMENTS

QRx Pharma

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures the financial report of QRxPharma Limited complies with International Financial Reporting Standards (IFRS).

Historical cost convention

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

Critical accounting estimates

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

(B) GOING CONCERN

The Group has experienced significant recurring operating losses and negative cash flows from operating activities since its inception. At 30 June 2009, the Group holds cash and cash equivalents of $17.8 million. (2008 : $29.7 million)

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

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

(C) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of QRxPharma Limited (''company'' or ''parent entity'') as at 30 June 2009 and the results of all subsidiaries for the year then ended. QRxPharma Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(D) SEGMENT REPORTING

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

(E) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

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

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

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

(F) REVENUE RECOGNITION

Interest income

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

(G) INCOME TAX

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

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

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

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

Tax consolidation legislation

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

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

(H) BUSINESS COMBINATIONS

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

(I) IMPAIRMENT OF ASSETS

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

(J) GRANT INCOME

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

(K) CASH AND CASH EQUIVALENTS

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

(L) INVESTMENTS AND OTHER FINANCIAL ASSETS

Classification

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

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

Recognition and derecognition

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

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

Fair value

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

(M) PROPERTY, PLANT AND EQUIPMENT

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

– Plant and equipment 4 years

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

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

(N) INTANGIBLE ASSETS

(i) Intellectual property

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

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

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

(ii) Research and development

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

(O) TRADE AND OTHER PAYABLES

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

(P) 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 21). 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. 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 26.

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

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

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

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

(v) Bonus plans

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

(vi) Employee benefit on-costs

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

(R) CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(S) EARNINGS PER SHARE

(i) Basic earnings per share

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

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(T) DERIVATIVES

Derivatives that do not qualify for hedge accounting

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

(U) FAIR VALUE ESTIMATION

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

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

(V) 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.

(W) 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.

(X) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) *AASB 8 Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8 (effective from 1 January 2009)*

AASB 8 requires the adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group will adopt AASB 8 from 1 July 2009 and it is not expected to have a significant impact on disclosure.

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 (effective from 1 January 2009)

The revised AASB 123 has removed the option to expense all borrowing costs and, when adopted, will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group does not have any borrowings.

(iii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 (effective from 1 January 2009)

The September 2007 revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group will apply the revised standard from 1 July 2009.

(iv) AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations (effective from 1 January 2009)

AASB 2008-1 clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply the revised standard from 1 July 2009, but it is not expected to affect the accounting for the Group's share-based payments.

(v) Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 (effective 1 July 2009)

The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition related costs must be expensed.

The revised AASB 127 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when the control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. This is consistent with the Group's current accounting policy if significant influence is not retained.

The Group will apply the revised standards prospectively to all business combinations and transactions with non controlling interests from 1 July 2009.

(vi) AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual improvement project (effective 1 July 2009)

The amendments to AASB 5 Discontinued operations and AASB 1 *First-time Adoption of Australian-Equivalents to international financial Reporting Standards* are part of the IASB's annual improvements project published in May 2008. They clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosures should be made for this subsidiary if the definition of a discontinued operation is met. The Group will apply the amendments prospectively to all partial disposals of subsidiaries from 1 July 2009.

(vii) AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 July 2009)

In July 2008, the AASB approved amendments to AASB 1 *First Time adoption of International Financial Reporting Standards* and AASB 127 *Consolidated and Separate Financial Statements*. The Group will apply the revised rules prospectively from 1 July 2009. After that date, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Under the entities current policy, these dividends are deducted from the cost of the investments. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investments in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value. It is not expected to have a material impact on the Group's financial statements.

(viii) AASB 2008-8 Amendment to IAS 39 Financial instruments: Recognition and Measurement (effective 1 July 2009)

AASB 2008-8 amends AASB 139 *Financial instruments: Recognition and Measurement* and must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one sided hedged risk when designating options as hedges. The Group will apply the amended standard from 1 July 2009. It is not expected to have a material impact on the Group's financial statements.

(ix) AASB Interpretation 17 Distribution of Non-cash Assets to Owners and AASB 2008-13 Amendments to Australian Accounting Standards arising from AASB Interpretation 17

AASB-I 17 applies to situations where an entity pays dividends by distributing non-cash assets to its shareholders. These distributions will need to be measured at fair value and the entity will need to recognise the difference between the fair value and the carrying amount of the distributed assets in the income statement on distribution. The interpretation further clarifies when a liability for the dividend must be recognised and that it is also measured at fair value. The Group will apply the interpretation prospectively from 1 July 2009. It is not expected to have a material impact on the Group's financial statements.

2 FINANCIAL RISK MANAGEMENT

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

The Group and the parent entity hold the following financial instruments:

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Financial assets				
Cash and cash equivalents	**17,773**	29,672	**17,552**	29,583
Trade and other receivables	**66**	158	**94**	135
Other financial assets	**566**	458	**220**	119
	18,405	30,288	**17,866**	29,837
Financial liabilities				
Trade and other payables	**1,684**	2,024	**3,263**	4,169
	1,684	2,024	**3,263**	4,169

(A) MARKET RISK

(i) Foreign exchange risk

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

During the year the Group converted AUD$3 million (2008: $20 million) to USD taking advantage of the terms on the remaining option contracts which had been entered into during the financial year ended 30 June 2007. During that year, the Group had entered into a series of foreign exchange put option contracts at an exchange rate between Australian dollars and US dollars of AUD$1.00 to US$0.8181 to protect against adverse foreign exchange movements between AUD and USD.

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

Buy US dollars	**Sell Australian dollars**		**Average exchange rate**	
	2009	2008	**2009**	2008
	$'000	$'000		
Maturity				
6 – 12 months	**-**	15,300	**-**	0.8180

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

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

	30 June 2009		30 June 2008	
	USD	**EUR**	USD	EUR
	$'000	**$'000**	$'000	$'000
Cash at bank	**158**	**-**	333	-
Term deposits	**13,009**	**68**	21,022	-
Trade payables	**829**	**-**	116	-

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

	30 June 2009		30 June 2008	
	USD	**EUR**	USD	EUR
	$'000	**$'000**	$'000	$'000
Cash at bank	**158**	**-**	333	-
Term deposits	**13,009**	**68**	21,022	-
Trade payables	**3,098**	**-**	3,891	-

Group sensitivity

Based on the financial instruments held at 30 June 2009, had the Australian dollar weakened / strengthened by 10% against the US dollar with all other variables held constant, the Group's post-tax loss for the year would have been $1.8 million lower / $1.5 million higher (2008 – $2.5 million lower / $2.0 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.

Parent entity sensitivity

The parent entity's post-tax loss for the year would have been $1.8 million lower / $1.5 million higher (2008 - $2.5 million lower / $2.0 million higher) had the Australian dollar weakened/strengthened by 10% against the US dollar. Profit is more sensitive to movements in the Australian Dollar / US Dollar exchange rates in 2008 than in 2009 because of the foreign exchange gains/losses on the translation of US dollar denominated derivatives held for trading during the year ended 30 June 2008.

(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 fair value interest rate risk

The Group's main interest rate risk arises from the holding of cash and cash equivalents. During the year, the Group held significant bank accepted commercial bills and term deposit interest-bearing assets exposing the Group's income and operating cash flows to changes in market interest rates.

The value of borrowings at 30 June 2009 was $nil (2008 - $nil), thus limiting the Group's exposure to any cash flow risk in relation to liabilities.

Group sensitivity

As at 30 June 2009, if interest rates had changed by -/+ 40 basis points from the year-end rates with all other variables held constant, the post-tax loss for the year would have been $16,100 higher / lower (2008 – change of 125 bps: $70,100 higher / lower), mainly as a result of lower/higher interest income from cash and cash equivalents.

Parent entity sensitivity

The parent entity's main interest rate risk arises from the holding of cash equivalents. As at 30 June 2009, if interest rates had changed by -/+ 40 basis points from the year-end rates with all other variables held constant, the post-tax loss would have been $70,100 higher / lower (2008 – change of 125 bps: $70,100 higher / lower) as a result of lower / higher interest income from these financial assets.

(B) CREDIT RISK

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are acceptable. At 30 June 2009, cash equivalents were held with an Aa1 and an A3 financial institution, as rated by Moody's.

(C) LIQUIDITY RISK

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

The Group has experienced recurring operating losses and operating cash outflows since inception to 30 June 2009. Due to negative cash flow position the Group has not committed to any credit facilities rather relied upon equity financing through private and public equity investors.

The Group and parent entity's exposure to liquidity risk is restricted to the value of outstanding trade creditors. Trade payables generally have 30 day payment terms, and at 30 June 2009, the Group and parent entities had no overdue liabilities. The Group is continuously monitoring its' level of expenditure against the Prospectus as funds are expended in accordance with its' drug development expenditure program. The value of trade creditors at 30 June 2009 for the Group was $824,000 (2008: $1.6 million) which is payable within 1 month of the year end and at 30 June 2009, the entity carried cash and cash equivalents of $17.8 million (2008: $29.7 million).

The value of trade creditors at 30 June 2009 for the parent was $241,200 (2008: $158,000) which is payable within 1 month of the year end and at 30 June 2009, the parent entity carried cash and cash equivalents of $17.6 million (2008: $29.6 million).

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

(D) FAIR VALUE ESTIMATION

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

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 amount	-10%		+10%		-40bps		+40bps	
30 June 2009	$'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial assets									
Cash and cash equivalents	17,773	1,803	-	(1,475)	-	(16)	-	16	-
Financial liabilities									
Trade payables	824	(114)	-	93	-	-	-	-	-
Total increase/decrease		1,689	-	(1,382)	-	(16)	-	16	-

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

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.

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

Intellectual property of $15.5 million acquired through this merger relates to an exclusive worldwide license from the University of Alabama ("UOA") of certain technology relating to the treatment of central nervous system (CNS) disorders and other related diseases ("Torsin IP"). The Torsin IP programme is run through the Caldwell Labs at the UOA and is directed at re engineering existing drug therapies for new clinical applications, which include the treatment of dystonia, Parkinson's disease and other neurological disorders which are a part of the Central Nervous System ("CNS") market. Under the terms of this agreement the Group will use its commercially reasonable best efforts to bring a product or process using the Torsin IP to market through a commercially reasonable development programme to meet certain milestones. The first milestone is the filing of an investigational new drug application for a product within three years. The commercial commitments are more fully described in note 20.

Applying Accounting Standard AASB 136 "Impairment of Assets" at 30 June 2008 resulted in the Company fully impairing the carrying value of the asset at 30 June 2008, being $14.6 million.

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

Binomial option pricing model

During the year, the Group booked $1.5 million of share based payments as determined through the application of the binomial option pricing model. The binomial model is dependent on a number of variables and estimates fully described in note 26.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

4 SEGMENT INFORMATION

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

5 REVENUE

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
From continuing operations				
Interest	**719**	2,009	**710**	2,009

6 OTHER INCOME

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Management fees	**-**	-	**735**	515
Foreign exchange gain	**5,324**	-	**5,308**	-
Export Market Development Grant	**150**	-	**150**	-
	5,474	-	**6,193**	515

7 EXPENSES

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Loss before income tax includes the following specific expenses:				
Depreciation and Amortisation				
Plant and equipment	**29**	20	**13**	16
Amortisation of intangible assets	**-**	802	**-**	-
	29	822	**13**	16
Net foreign exchange loss	**-**	2,618	**-**	2,648
Employee benefit expense				
Employee benefit expense	**4,616**	2,907	**1,330**	1,136
Defined contribution superannuation expense	**42**	38	**42**	38
Share option expense	**1,533**	2,353	**1,050**	1,664
	6,191	5,298	**2,422**	2,838
Research and development				
Research and development expensed	**11,937**	12,708	**14,480**	13,970
Impairment of intangible asset	**-**	14,628	**-**	-
	11,937	27,336	**14,480**	13,970
Impairment losses – financial assets				
Investment in subsidiary	**-**	-	**749**	17,117
Rental expenses relating to operating leases				
Minimum lease payments	**136**	73	**25**	27

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

8 INCOME TAX BENEFIT

	Consolidated		Parent	
	2009	2008	**2009**	2008
(A) INCOME TAX BENEFIT	**$'000**	$'000	**$'000**	$'000
Current tax	**-**	-	**-**	-
Deferred tax expense	**-**	(125)	**-**	(125)
	-	(125)	**-**	(125)

The deferred tax asset relates to a Research and Development tax rebate payment received during the financial year ended 30 June 2008 under Section 73B of the Income Tax Assessment Act 1936.

	Consolidated		Parent	
	2009	2008	**2009**	2008
(B) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE	**$'000**	$'000	**$'000**	$'000
Loss from continuing operations before income tax expense	**(13,495)**	(36,727)	**(12,875)**	(37,113)
Tax at the Australian tax rate of 30% (2008 – 30%)	**(4,048)**	(11,018)	**(3,862)**	(11,134)
Tax effect of amounts which are not deductible in calculating taxable income:				
Amortisation of intangibles	**-**	241	**-**	-
Impairment of intangible asset	**-**	4,388	**-**	-
Impairment of financial asset	**-**	-	**225**	5,135
Share-based payments	**461**	779	**315**	779
	(3,587)	(5,610)	**(3,322)**	(5,220)
Previously unrecognised losses recouped	**-**	(125)	**-**	(125)
Adjustment of current tax for prior periods	**701**	-	**759**	-
Benefit of tax losses not recognised	**2,886**	5,610	**2,563**	5,220
Income tax expense	**-**	(125)	**-**	(125)

	Consolidated		Parent	
	2009	2008	**2009**	2008
(C) TAX LOSSES	**$'000**	$'000	**$'000**	$'000
Unused tax losses for which no deferred tax asset has been recognised	**37,131**	27,513	**34,758**	26,213
Potential tax benefit @ 30%	**11,139**	8,254	**10,427**	7,864

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

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

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

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

(D) TAX CONSOLIDATION LEGISLATION

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

9 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Cash at bank	**527**	654	**306**	565
Term deposits	**16,153**	21,839	**16,153**	21,839
Commercial bills	**1,093**	7,179	**1,093**	7,179
	17,773	29,672	**17,552**	29,583

(A) CASH AT BANK

These bear an interest rate of 2.9% (2008: 7.3%) for the AUD accounts and 0.25% (2008:1%) on balances over USD 50,000 for the USD accounts.

(B) TERM DEPOSITS

These are USD deposits and bear an average fixed interest rate of 0.4% (2008: 2.3%). These deposits have a maturity of less than 3 months.

(C) COMMERCIAL BILLS

These commercial bills are in Australian dollars and bear an average interest rate of 2.9% (2008: 7.4%). They have a maturity of less than 3 months.

10 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Interest receivable	**11**	105	**11**	105
Other receivables	**55**	53	**83**	30
	66	158	**94**	135

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

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value and at 30 June 2009 no receivables were impaired or past due (30 June 2008: nil).

11 CURRENT ASSETS – OTHER CURRENT ASSETS

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Prepayments	**566**	458	**220**	119

12 NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Investment in subsidiaries (note 23)	**-**	-	**20,708**	20,223
Less provision for write down to recoverable amount	**-**	-	**(18,367)**	(17,618)
	-	-	**2,341**	2,605

These financial assets are carried at cost.

A provision for write down to a recoverable amount of $0.75 million (2008: 17.1 million) was recognised in the parent entity to write down the value of the investment in a subsidiary to its net asset value. In the prior year, due to the impairment loss on the Torsin IP asset recognised in the books of the subsidiary, a provision for diminution in value against the investment in the books of the parent entity was recognised. Refer to note 3.

During the financial year two new wholly owned subsidiaries, Venomics Pty Ltd and Venomics Hong Kong Limited were incorporated.

13 NON–CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Consolidated	Parent
	Plant & Equipment $'000	Plant & Equipment $'000
At 1 July 2007		
Cost	127	127
Accumulated depreciation	(102)	(102)
Net book amount	25	25
Year ended 30 June 2008		
Opening net book amount	25	25
Additions	68	28
Depreciation charge	(20)	(16)
Closing net book amount	73	37
At 30 June 2008		
Cost	195	155
Accumulated depreciation	(122)	(118)
Net book amount	73	37
Year ended 30 June 2009		
Opening net book amount	73	37
Additions	230	-
Depreciation charge	(29)	(13)
Closing net book amount	274	24
At 30 June 2009		
Cost	425	155
Accumulated depreciation	(151)	(131)
Net book amount	274	24

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

14 NON–CURRENT ASSETS – INTANGIBLE ASSETS

Consolidated	Patents, trademarks and other rights $'000	Other intangible assets $'000	Total $'000
Year ended 30 June 2008			
Opening net book amount	15,430	-	15,430
Impairment of intellectual property*	(14,628)	-	(14,628)
Amortisation charge	(802)		(802)
Closing net book amount	-	-	-
At 30 June 2008			
Cost	15,502	889	16,391
Accumulated amortisation and impairment	(15,502)	(889)	(16,391)
Net book amount	-	-	-

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

Consolidated	Patents, trademarks and other rights $'000	Other intangible assets $'000	Total $'000
Year ended 30 June 2009			
Opening net book amount	-	-	-
Impairment of intellectual property	-	-	-
Amortisation charge	-	-	-
Closing net book amount	-	-	-
At 30 June 2009			
Cost	15,502	889	16,391
Accumulated amortisation and impairment	(15,502)	(889)	(16,391)
Net book amount	-	-	-

14 NON–CURRENT ASSETS – INTANGIBLE ASSETS

Parent	Patents, trademarks and other rights $'000	Other intangible assets $'000	Total $'000
Year ended 30 June 2008			
Opening net book amount	-	-	-
Closing net book amount	-	-	-
At 30 June 2008			
Cost	-	414	414
Accumulated amortisation and impairment	-	(414)	(414)
Net book amount	-	-	-
Year ended 30 June 2009			
Opening net book amount	-	-	-
Closing net book amount	-	-	-
At 30 June 2009			
Cost	-	414	414
Accumulated amortisation and impairment	-	(414)	(414)
Net book amount	-	-	-

15 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Trade payables	**824**	1,611	**241**	158
Amounts due to subsidiaries	**-**	-	**2,797**	3,802
Accrued employee benefits	**768**	92	**105**	32
Other payables	**92**	321	**120**	177
	1,684	2,024	**3,263**	4,169

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

16 CONTRIBUTED EQUITY

	Parent		Parent	
	2009 Shares	2008 Shares	**2009 $'000**	2008 $'000
(A) SHARE CAPITAL				
Ordinary shares – fully paid	**75,000,000**	75,000,000	**79,694**	79,694

(B) MOVEMENTS IN ORDINARY SHARE CAPITAL:

Date	Details	Notes	Number of shares	Issue price	$'000
1 July 2007	Balance		75,000,000		79,932
	Less: Transaction costs arising on share issues				(238)
30 June 2008	Balance		75,000,000		79,694
30 June 2009	Balance		75,000,000		79,694

Transaction costs arising on share issues incurred during the year ended 30 June 2008 represent the share based payments charge for options issued to JPMorgan at the time of the Initial Public Offering (IPO). Refer note 26(b).

(C) ORDINARY SHARES

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

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

(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 26.

(E) VOLUNTARY ESCROWS

Certain directors, consultants and pre IPO investors had voluntarily escrowed their shareholdings in the Company. At 25 May 2009, the remaining 34,229,407 voluntary escrows on ordinary shares expired.

(F) CAPITAL RISK MANAGEMENT

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

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

17 RESERVES AND ACCUMULATED LOSSES

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
(A) RESERVES				
Share-based payments reserve	**5,432**	3,899	**5,432**	3,899
Foreign currency translation reserve	**305**	(315)	**-**	-
	5,737	3,584	**5,432**	3,899
MOVEMENTS:				
Share-based payments reserve				
Balance 1 July	**3,899**	387	**3,899**	387
Option expense	**1,533**	3,512	**1,050**	2,691
Options issued to employees of subsidiaries	**-**	-	**483**	821
Balance 30 June	**5,432**	3,899	**5,432**	3,899
Foreign currency translation reserve				
Balance 1 July	**(315)**	-	-	-
Currency translation differences arising during the year	**620**	(315)	-	-
Balance 30 June	**305**	(315)	**-**	-
(B) ACCUMULATED LOSSES				
Movements in accumulated losses were as follows:				
Opening accumulated losses	**(54,941)**	(18,339)	**(55,283)**	(18,295)
Loss for the year	**(13,495)**	(36,602)	**(12,875)**	(36,988)
Balance 30 June	**(68,436)**	(54,941)	**(68,158)**	(55,283)

(C) NATURE AND PURPOSE OF RESERVES

(i) Share-based payments reserve

The share-based payment reserve is used to recognise:

- the fair value of options issued to employees but not exercised
- the fair value of shares issued to employees
- in the parent entity – the fair value of shares and options issued to employees of subsidiaries

(ii) Foreign currency translation reserve

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

18 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
Warren C Stern	Executive Vice President, Drug Development
Chris J Campbell	Chief Financial Officer and Company Secretary
Joseph J Berry	Vice President Operations
Philip J Magistro	Vice President, Commercial Operations
Patricia T Richards	Chief Medical Officer

All of the above persons were also key management persons during the year ended 30 June 2008.

(C) KEY MANAGEMENT PERSONNEL COMPENSATION

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Short term employee benefits	**2,659,314**	2,123,952	**979,769**	968,263
Post employment benefits	**27,226**	28,102	**27,226**	28,102
Share-based payments	**1,202,155**	2,361,213	**771,401**	1,674,644
	3,888,695	4,513,267	**1,778,396**	2,671,009

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 sections A-C of the remuneration report on pages 14 to 19.

(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 section D of the remuneration report on pages 19 to 21.

(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.

2009

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	402,726	201,363
John W Holaday	805,452	-	-	-	805,452	536,968	268,484
Gary W Pace	402,726	-	-	-	402,726	268,484	134,242
Michael A Quinn	402,726	-	-	-	402,726	268,484	134,242
R Peter Campbell	241,635	-	-	-	241,635	161,090	80,545
Other key management personnel of the Group							
Warren C Stern	805,452	75,000	-	-	880,452	536,968	343,484
Chris J Campbell	402,726	75,000	-	-	477,726	268,484	209,242
Patricia T Richards	500,000	60,000	-	-	560,000	166,667	393,333
Philip J Magistro	200,000	60,000	-	-	260,000	66,667	193,333
Joseph J Berry	150,000	60,000	-	-	210,000	50,000	160,000

2008

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

18 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(iii) Share holdings

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

2009

Name	Balance at 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	1,280,540	-	100,000	1,380,540
John W Holaday	7,543,000	-	-	7,543,000
Gary W Pace	3,230,083	-	-	3,230,083
Michael A Quinn ^	9,471,749	-	(1,174,442)	8,297,307
R Peter Campbell	85,000	-	-	85,000
Other key management personnel of the Group				
Ordinary shares				
Warren C Stern	-	-	-	-
Chris J Campbell	-	-	-	-
Patricia T Richards	-	-	-	-
Philip J Magistro	-	-	-	-
Joseph J Berry	-	-	-	-

^ The Director is also a Director of Innovation Capital Associates Pty Limited, who acted as the trustee of the Innovation Capital QRx I & II Trusts. A net 1,174,442 shares were distributed to beneficiaries of the Innovation Capital QRx I & II Trusts other than the Director, after the expiration of voluntary escrows on 25 May 2009. The Director has no continuing relevant interest in these shares.

2008

Name	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of QRxPharma Limited				
Ordinary shares				
Peter C Farrell *(appointed 27 April 2007)*	1,145,540	-	135,000	1,280,540
John W Holaday *(appointed 27 April 2007)*	7,505,000	-	38,000	7,543,000
Gary W Pace	3,190,083	-	40,000	3,230,083
Michael A Quinn*	10,593,090	-	(1,121,341)	9,471,749
R Peter Campbell *(appointed 27 April 2007)*	50,000	-	35,000	85,000
Other key management personnel of the Group				
Ordinary shares				
Warren C Stern	-	-	-	-
Douglas A Saltel *(resigned 7 March 2008)*	-	-	-	-
Chris J Campbell	-	-	-	-
Patricia T Richards	-	-	-	-
Philip J Magistro	-	-	-	-
Joseph J Berry	-	-	-	-

* The Director is also a Director of Innovation Capital Associates Pty Limited, who acts as the trustee of the Innovation Capital QRx I & II Trusts. The movement for the year includes a net distribution of 1,174,441 shares to beneficiaries of the Innovation Capital QRx I & II Trusts other than the Director, after the expiration of voluntary escrows on 25 May 2008. The Director has no continuing relevant interest in these shares.

(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 $131,532 (2008: $239,443).

19 REMUNERATION OF AUDITORS

	Consolidated		Parent	
(A) AUDIT SERVICES	**2009 $**	2008 $	**2009 $**	2008 $
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**129,250**	86,000	**129,250**	86,000
Total remuneration for audit services	**129,250**	86,000	**129,250**	86,000
(B) NON-AUDIT SERVICES				
PricewaterhouseCoopers Australian firm				
Taxation services	**88,885**	99,270	**88,885**	99,270
Related practices of PricewaterhouseCoopers Australian firm	**66,218**	11,554	**-**	-
Total remuneration for audit related services	**155,103**	110,824	**88,885**	99,270
	284,353	196,824	**218,135**	185,270

20 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 expire date of the patents licensed under the agreement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

21 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 6 months prior written notice to the University of Alabama.

(B) UNIVERSITY OF QUEENSLAND

On 10 January 2008, the Group entered into a Collaborative Reserach Agreement with the University of Queensland for the conduct of the Australian Research Council linkage project grant; "Pre-clinical evaluation of snake venom proteins with therapeutic potential". Under the terms of this grant, the Group is contracted to pay a total of $106,000 to the University over the ensuing year.

(C) OPERATING LEASES

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

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	Consolidated		Parent	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Within one year	**128**	100	**29**	19
Later than one year but not later than five years	**57**	171	**2**	21
	185	271	**31**	40

22 RELATED PARTY TRANSACTIONS

(A) SUBSIDIARIES

Interests in subsidiaries are set out in note 23.

(B) KEY MANAGEMENT PERSONNEL

Disclosures relating to key management personnel are set out in note 18.

(C) OUTSTANDING BALANCES

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

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Current payables				
Subsidiaries	**-**	-	**2,796,779**	3,802,332

(D) TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Other income				
Management services to subsidiary	**-**	-	**735,255**	515,205
Expenses				
Research and development service fees and costs from subsidiary	**-**	-	**12,472,673**	13,107,627

23 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):

			Equity holding	
			2009	2008
Name of entity	**Country of incorporation**	**Class of shares**	**%**	%
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	**100**	-
Venomics Hong Kong Limited*	Hong Kong	Ordinary	**100**	-

*Entities incorporated during the 2009 financial year

24 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Loss for the year	**(13,495)**	(36,602)	**(12,875)**	(36,988)
Depreciation and amortisation	**29**	822	**13**	16
Impairment of intangible asset	**-**	14,628	**-**	-
Impairment of financial asset	**-**	-	**749**	16,267
Non cash employee benefits expense – share-based payments	**1,533**	3,257	**1,050**	3,305
Net exchange differences on cash and cash equivalents	**(4,704)**	2,353	**(5,308)**	2,648
Interest on held-to-maturity investments	**-**	(355)	**-**	(355)
Change in operating assets and liabilities				
(Increase)/decrease in other receivables and prepayments	**(16)**	511	**(58)**	804
Increase/(decrease) in trade creditors and accruals	**(340)**	1,239	**(908)**	3,309
Increase/(decrease) in other operating liabilities	**-**	-	**-**	-
Net cash outflow from operating activities	**(16,993)**	(14,147)	**(17,337)**	(10,994)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

25 LOSS PER SHARE

	Consolidated	
	2009 Cents	2008 Cents
(A) BASIC LOSS PER SHARE		
Loss from continuing operations attributable to the ordinary equity holders of the company	**(18.0)**	(48.8)
(B) DILUTED LOSS PER SHARE		
Loss from continuing operations attributable to the ordinary equity holders of the company	**(18.0)**	(48.8)

	Consolidated	
(C) RECONCILIATIONS OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE	**2009 $'000**	2008 $'000
Basic loss per share		
Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**(13,495)**	(36,602)
Diluted loss per share		
Loss attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**(13,495)**	(36,602)

	Consolidated	
(D) WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR	**2009 Number**	2008 Number
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	**75,000,000**	75,000,000
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share	**75,000,000**	75,000,000

(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 26.

26 SHARE-BASED PAYMENTS

(A) QRXPHARMA EMPLOYEE SHARE OPTION PLAN (ESOP)

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

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

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

(a) increasing the maximum aggregate number of shares that may be issued under the option plan;

(b) any change in the class of employees eligible to receive options under the option plan;

(c) any change in the shares reserved for issuance under the option plan; and

(d) substitution of another entity in place of the Company as the issuer of shares under the option plan.

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

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

(B) JP MORGAN SECURITIES AUSTRALIA LIMITED DEED

In part consideration for underwriting services in relation to the IPO, the Company granted JP Morgan Securities Australia Limited 322,181 options to purchase 322,181 ordinary shares in the Company. These options vested on 25 November 2007 and have a three year term through to 25 May 2010, with the option exercise price being $2.20.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

26 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	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
			Number	Number	Number	Number	Number	Number
Consolidated and parent 2009								
31 March 2007	31 March 2007	$1.42	402,726	-	-	-	402,726	268,484
14 April 2007	14 April 2014	$1.00	2,013,630	-	-	-	2,013,630	1,342,420
25 May 2007	25 May 2014	$2.00	1,448,450	-	-	-	1,448,450	965,633
25 May 2007	25 May 2014	$1.00	552,726	-	-	-	552,726	368,484
25 May 2007	25 May 2010	$2.20	322,181	-	-	-	322,181	214,787
1 September 2007	1 September 2014	$1.70	50,000	-	-	-	50,000	16,667
1 October 2007	1 October 2014	$1.45	75,000	-	-	-	75,000	25,000
9 October 2007	9 October 2014	$1.34	50,000	-	-	-	50,000	16,667
1 January 2008	1 January 2015	$1.11	350,000	-	-	-	350,000	116,667
1 April 2008	1 April 2015	$1.05	600,000	-	-	-	600,000	200,000
1 April 2008	1 April 2015	$1.04	75,000	-	-	-	75,000	25,000
1 October 2008	1 October 2015	$0.60	-	50,000	-	-	50,000	-
4 November 2008	4 November 2015	$0.37	-	100,000	-	-	100,000	-
1 January 2009	1 January 2016	$0.20	-	710,000	-	-	710,000	10,000
Total			5,939,713	860,000	-	-	6,799,713	3,569,809
Weighted average exercise price			$1.36	$0.24	-	-	$1.22	$1.39

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
			Number	Number	Number	Number	Number	Number
Consolidated and parent 2008								
31 March 2007	31 March 2014	$1.42	402,726	-	-	-	402,726	134,242
14 April 2007	14 April 2014	$1.00	2,819,082	-	-	-	2,013,630	671,210
25 May 2007	25 May 2014	$2.00	1,448,450	-	-	(805,452)	1,448,450	482,817
25 May 2007	25 May 2014	$1.00	552,726	-	-	-	552,726	184,242
25 May 2007	25 May 2010	$2.20	322,181	-	-	-	322,181	322,181
1 September 2007	1 September 2014	$1.70	-	50,000	-	-	50,000	-
1 October 2007	1 October 2014	$1.45	-	75,000	-	-	75,000	-
9 October 2007	9 October 2014	$1.34	-	50,000	-	-	50,000	-
1 January 2008	1 January 2015	$1.11	-	350,000	-	-	350,000	-
1 April 2008	1 April 2015	$1.05	-	600,000	-	-	600,000	-
1 April 2008	1 April 2015	$1.04	-	75,000	-	-	75,000	-
Total			5,545,165	1,200,000	-	(805,452)	5,939,713	1,794,692
Weighted average exercise price			$1.36	$1.13	-	$1.00	$1.36	$1.42

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2009 was $0.10 per option (2008: $0.69). The fair value at grant date is independently determined using a binomial 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 2009 included:

(a) exercise price: $0.20 to $0.60 (2008 $1.04 to $1.70)

(b) grant date: 1 October 2008, 4 November 2008, 1 January 2009 (2008 – 1 September 2007, 1 October 2007, 9 October 2007, 1 January 2008 and 1 April 2008)

(c) expiry date: 1 October 2015, 4 November 2015, 1 January 2016 (2008 -1 September 2014, 1 October 2014, 9 October 2014, 1 January 2015 and 1 April 2015)

(d) share price at grant date: $0.20 to $0.60 (2008 - $1.04 to $1.70)

(e) expected price volatility of the company's shares: 60% (2008 - 60%)

(f) expected dividend yield: nil% (2008 - nil%)

(g) risk free interest rate: 5.18% (2008 - 6.25%).

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

(D) EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

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

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Options issued under employee option plan	**1,533**	3,327	**1,050**	2.506

27 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

QRxPHARMA LIMITED ABN 16 102 254 151

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2009

In the directors' opinion:

(a) the financial statements and notes set out on pages 30 to 67 are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the financial year ended on that date; and

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

(c) the audited remuneration disclosures set out on pages 14 to 22 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

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

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

Peter C Farrell
Director

Sydney
21 August 2009

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
www.pwc.com/au

Independent auditor's report to the members of QRxPharma Limited

Report on the financial report

We have audited the accompanying financial statements of QRxPharma Limited (the company), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and statement of cash flow for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both QRxPharma Limited and the QRxPharma Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

PRICEWATERHOUSECOOPERS

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

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

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

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 22 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of QRxPharma Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001.*

PricewaterhouseCoopers

Manoj Santiago
Partner

Sydney
21 August 2009

QRxPHARMA LIMITED ABN 16 102 254 151

SHAREHOLDER INFORMATION

FOR THE YEAR ENDED 30 JUNE 2009

The shareholder information set out below was applicable as at 2 September 2009.

A. DISTRIBUTION OF EQUITY SECURITIES

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

	Shares	Options
1 – 1,000	46	-
1,001 – 5,000	227	-
5,001 – 10,000	179	-
10,001 – 100,000	250	12
100,001 and over	55	17
	757	29

There are 19 holders of less than a marketable parcel of ordinary shares.

B. EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

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

	Ordinary shares	
Name	Number held	Percentage of issued shares
Dr John Holaday and Holaday Foundation	7,543,000	10.06%
Neweconomy Nominees Pty Limited	6,408,730	8.54%
HSBC Custody Nominees (Australia) Limited	6,078,314	8.10%
Four Hats Financial Services Limited	5,925,586	7.90%
Innovation Capital Limited	5,269,090	7.03%
National Nominees Limited	4,516,002	6.02%
Spring Ridge Ventures I, LP	4,228,673	5.64%
Uniquest Pty Limited	4,004,499	5.34%
Dr Gary Pace	3,230,083	4.31%
Innovation Capital LLC	2,713,685	3.62%
UIIT Pty Limited	2,175,338	2.90%
Dr Peter Farrell	1,380,540	1.84%
Bacchus Global Assets LLC	1,380,366	1.84%
Citicorp Nominees Pty Limited	1,061,822	1.42%
Lynx No1 Pty Limited	680,336	0.91%
ITR Investments	572,308	0.76%
Mr David Stack	475,895	0.63%
Joseph and Janine Meadows	444,706	0.59%
Gowing Bros Ltd	400,000	0.53%
Mr. Ross Richard Eddison	327,632	0.44%
	58,816,605	78.42%

SHAREHOLDER INFORMATION (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

B. EQUITY SECURITY HOLDERS (CONTINUED)

Unquoted equity securities

	Number on issue	Number of holders
Options issued under the QRxPharma Limited Employee Share Option Plan and JP Morgan Securities Australia Limited Deed to take up ordinary shares	**7,337,213***	29**

* Number of unissued ordinary shares under the options.

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

C. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

Ordinary shares

	Number held	Percentage
Innovation Capital Limited, Innovation Capital LLC, Kaylara Pty Ltd	8,297,307	11.06%
Dr John W Holaday and Holaday Foundation	7,543,000	10.06%
JPMorgan Securities Australia	6,600,000	8.80%
Four Hats Financial Services Limited	5,925,586	7.90%
Spring Ridge Ventures I, LP	4,228,673	5.64%
Westpac Banking Corporation	4,156,978	6.57%
Uniquest Pty Limited	4,004,499	5.34%

D. VOTING RIGHTS

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

(a) Ordinary shares

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

(b) Options

No voting rights.

NOTES:

QRx Pharma

www.qrxpharma.com