QRxPharma Ltd
ABN 16 102 254 151

ASX Preliminary final report – 30 June 2009

Lodged with the ASX under Listing Rule 4.3A

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

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Appendix 4E Preliminary Final Report

QRxPharma Limited
ABN 16 102 254 151

1. Reporting Period

Report for the financial year ended 30 June 2009.
Previous corresponding period is the financial year ended 30 June 2008.

2. Results for announcement to the market

				$A'000
Revenue from ordinary activities *(item 2.1)*	Down	64.2%	To	719
Net loss from ordinary activities after tax attributable to members *(item 2.2)*	Down	63.1%	To	(13,495)
Net loss for the period attributable to members *(item 2.3)*	Down	63.1%	To	(13,495)

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

Revenue

The decrease in revenue represents a reduction in interest income earned as consequence of lower funds held of $23.7 million (2008:$ 37.9 million) during the year together with lower prevailing interest rates of 3.0% (2008: 5.3%). Interest earned amounted to $0.7 million (2008: $2.0 million).

Net loss from ordinary activities

The net loss from ordinary activities of $13.5 million (2008: net loss $36.6 million) was in line with expectations of the Board of Directors, and resulted from the fulfilling research and development activities in the progression of the Company's clincial 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 carried an impairment charge relating to Tornin IP of $14.6 million. (2009: $nil).

The net loss also includes:

- research and development expenditure of $11.9 million (2008: $12.7 million) primarily incurred in progressing the Company's Phase 3 clinical trial programme of its' lead compound MoxDuo™IR
- total employee benefits expense of $6.2 million (2008: $5.3 million) which reflects a full year of labour costs of head count recruited progressively during the 2008 financial year, partially offset by a reduction in employee non cash share based charges of $0.8 million to $1.5 million..
- depreciation and amortisation charge of $0.03 million (2008: $0.8 million) with $nil (2008: $0.8 million) amortisation expense against intellectual property which was subject of full impairement at 30 June 2008.
- other expenses of $1.3 million (2008: $2.4 million) with $nil charge for currency option premium expense (2008: $0.8 million).

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

3. Income Statement - Refer to the attached Annual financial report

4. **Balance Sheet** - Refer to the attached Annual financial report

5. **Cash Flow Statement** - Refer to the attached Annual financial report

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

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

8. **Statement of Retained Earnings -** Refer to the attached Annual financial report

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

	30 June 2009	**30 June 2008**
Net tangible assets per ordinary share	$0.23	$0.38

10. The Group did not acquire or lose control over any entities during the period.

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

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

At 30 June 2009, the Company had cash reserves of $17.8 million (2008: $29.7 million). The operating results for the year ended 30 June 2009 are reflective of the Company's activities to progress the clinical trial programme for its lead compound, MoxDuo™ IR, while continuing to advance its other product candidates.

Key Achievements

- **MoxDuo™ IR**: Completion of an 197 patient Phase 3 program pilot comparative study at 6 US clinical research sites, ahead of schedule, to evaluate the analgesic efficacy and safety profile of MoxDuo™ IR against individual component doses of morphine and oxycodone alone. Patient data demonstrated that MoxDuo™ IR reduces pain significantly more than its component doses; further, when compared to equianalgesic doses of morphine and oxycodone, MoxDuo™ IR produced significantly fewer and less intense side effects, indicating better tolerability in managing acute pain.

  A second Phase 3 program pilot comparator study to evaluate the analgesic efficacy and safety profile of MoxDuo™ IR capsules in 44 patients who underwent knee replacement surgery against Percocet® was also initiated during the year, with the dosing of patients completed in early July 2009.

  The results of these two pilot studies will enhance knowledge about optimizing the design and implementation of two pending pivotal Phase 3 trials required for submission of a New Drug Application with the US Food and Drug Administration (FDA) in FY2011.

  The results of the 197 patient study (noted above) were incorporated into an updated version of the Company's "combination rule" Phase 3 study protocol for MoxDuo™ IR submitted in June 2009 to FDA for Special Protocol Assessment (SPA) approval. The SPA process provides a mechanism by which the Company can achieve a binding agreement with the FDA regarding the acceptability of the study design and proposed statistical analysis plan prior to implementation of the clinical trial. The Company also intends to use the knowledge gained from the 44 patient pilot (noted above) to complete the filing of a second SPA with the FDA in respect to the planned Phase 3 pivotal trial comparison against Percocet® in patients with pain after knee replacement surgery.

- **MoxDuo™ IV:** Clinical trial activity was initiated to evaluate the safety and efficacy of the intravenous formulation of QRxPharma's Dual Opioid™, MoxDuo™ IV for the immediate post-surgical treatment of hospital-based pain, with the first patient dosed in July 2009. Data from this Phase 2 comparative proof-of-concept study of MoxDuo™ IV (intravenous morphine and oxycodone) versus IV morphine alone, will serve as a significant predictor of MoxDuo™ IV's 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.

- **MoxDuo™ CR:** The progression of the development of MoxDuo™CR, a continuous release formulation of QRxPharma's Dual-Opioid™ designed to provide 12 hours of pain relief in patients with moderate to severe pain, continues on track to initiate Phase I studies by the end of 2009. This proprietary formulation encompasses not only sustained delivery technology, but also technologies to deter abuse and tampering.

- **Neurodegenerative Disease Products:** Development efforts with the Company's Dystonia, Parkinson's Disease and Alzheimer's Disease programme (Torsin) with a family of small molecules continues under a collaborative research agreement at the University of Alabama (Caldwell Labs) to confirm the preclinical efficacy of its lead molecules. Preclinical trials supported in part by the Michael J. Fox Foundation are presently underway to evaluate QRxPharma's lead drug candidates in models of Parkinson's Disease.

- **Venomics:** Business development efforts 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.

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

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

C. J. Campbell

Chris J Campbell
Company Secretary
QRxPharma Limited
21 August 2009

QRxPharma Limited ABN 16 102 254 151
Annual report - 30 June 2009

Contents

ATTACHMENT 1

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.

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

		Consolidated		Parent	
	Notes	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'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)

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

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'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.

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'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.

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'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

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.

1 Summary of significant accounting policies (continued)

(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.

(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.

1 Summary of significant accounting policies (continued)

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).

1 Summary of significant accounting policies (continued)

(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 foreign exchange 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.

1 Summary of significant accounting policies (continued)

(q) Employee benefits

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

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

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

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

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

1 Summary of significant accounting policies (continued)

(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 and the parent entity’s assessment of the impact of these new standards and interpretations is set out below.

1 Summary of significant accounting policies (continued)

(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.

1 Summary of significant accounting policies (continued)

(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 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 $'000	2008 $'000	**2009 $'000**	2008 $'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.

2. Financial risk management (continued)

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.

2. Financial risk management (continued)

(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.

2 Financial risk management (continued)

Summarised sensitivity analysis

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

		Foreign exchange risk				Interest rate risk			
	Carrying	-10%		+10%		-40bps		+40bps	
30 June 2009	amount $'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	-10%		+10%		-125bps		+125bps	
30 June 2008	amount $'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.

3 Critical accounting estimates and judgements (continued)

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.

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 $'000	2008 $'000	**2009 $'000**	2008 $'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 $'000	2008 $'000	**2009 $'000**	2008 $'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

8 Income tax benefit

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
(a) Income tax benefit				
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
	$'000	$'000	**$'000**	$'000
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
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
	$'000	$'000	**$'000**	$'000
(c) Tax losses				
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.

8 Income tax benefit (continued)

(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 $'000	2008 $'000	**2009 $'000**	2008 $'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 then 3 months.

10 Current assets - Trade and other receivables

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'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 has been 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

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 (continued)

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 $'00	2008 $'000	**2009 $'000**	2008 $'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.

16 Contributed equity

	Parent entity		Parent entity	
	2009	2008	**2009**	2008
	Shares	Shares	**$'000**	$,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

(a) Reserves

	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
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:

	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
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 will be 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	**2,659,315**	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
	3,888,696	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.

18 Key management personnel disclosures (continued)

(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 Note 26.

(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	132,242	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

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 the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of QRxPharma Limited				
Ordinary shares				
Peter C Farrell	1,280,540	-	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	-	-	-	-

2008 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of QRxPharma Limited				
Ordinary shares				
Peter C Farrell (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	3,230,000
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	-	-	-	-

(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).

^ 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.
* 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.

19 Remuneration of auditors

	Consolidated		Parent	
	2009 **$**	2008 $	**2009** **$**	2008 $
(a) Audit services				
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.

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 and upon payment of all amounts due.

(b) University of Queensland

On 10 January 2008, the Group entered into a Collaborative Research 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.

21 Commitments (continued)

(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.

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
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	**2008**	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):

Name of entity	Country of incorporation	Class of shares	Equity holding 2009	2008
			%	%
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 $'000	2008 $'000	**2009 $'000**	2008 $'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)

25 Loss per share

	Consolidated	
	2009	2008
	Cents	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)
(c) Reconciliations of earnings used in calculating earnings per share		
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)

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

	Consolidated	
	2009	2008
	Number	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.

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 Number	Granted during the year Number	Exercised during the year Number	Forfeitted during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year 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

26 Share-based payments (continued)

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

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeitted during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year 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	-	-	(805,452)	2,013,630	671,210
25 May 2007	25 May 2014	$2.00	1,448,450	-	-	-	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

26 Share-based payments (continued)

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

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.