



2013 ANNUAL REPORT

QRxPharma Limited is an Australian-based commercial-stage specialty pharmaceutical company focused on the development and commercialisation of new pain management and abuse prevention products.

Based on a development strategy that focuses on enhancing the clinical utility of currently approved compounds as well as bringing new products to market, the Company's portfolio includes both late and early stage clinical drug candidates with the potential for reduced risk, abbreviated development paths, and improved patient outcomes.

The Company's lead product candidate, immediate release MOXDUO[®], is presently under review at the US Food and Drug Administration. QRxPharma entered into strategic collaborations with Actavis Inc. in December 2011, Paladin Labs Inc. in October 2012 and Aspen Group in September 2013 for the commercialisation of immediate release MOXDUO in the United States, Canadian and Australian (including New Zealand and Oceania) acute pain markets. The Company's clinical pipeline includes an intravenous (IV) and controlled release (CR) formulation of MOXDUO.

The Company also established a collaboration agreement with Aesica Formulation Development Limited, for the worldwide promotion of QRxPharma's proprietary Stealth Beadlets[®] abuse deterrence technology. For more information, visit www.qrxpharma.com.

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DIRECTORS

Peter C Farrell PhD, ScD, AM

Non-Executive Chairman

John W Holaday PhD

**Managing Director, Chief Executive Officer
and Chief Scientific Officer**

R Peter Campbell FCA, FTIA

Gary W Pace PhD

Michael A Quinn MBA

SECRETARY

Chris J Campbell CA

NOTICE OF ANNUAL GENERAL MEETING

The annual general meeting of QRxPharma Limited
will be held at

DibbsBarker
Level 8, Angel Place,
123 Pitt Street, Sydney

time 10.00am

date Wednesday, 13 November 2013

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

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

SHARE REGISTER

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

AUDITOR

Deloitte Touche Tohmatsu
Eclipse Tower
60 Station Street, Parramatta, NSW 2150

SOLICITORS

DibbsBarker

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

Bryan Cave LLP

1155 F Street, N.W.
Washington, D.C. 20004, U.S.A

BANKERS

Westpac Banking Corporation
Level 9 Keycorp Tower, 799 Pacific Highway
Chatswood NSW 2067

Silicon Valley Bank
3003 Tasman, Santa Clara, California 95054
U.S.A

STOCK EXCHANGE LISTINGS

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

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

WEBSITE ADDRESS

www.qrxpharma.com

LETTER FROM THE CHAIRMAN



Dear Shareholder,

On behalf of QRxPharma's Board and management, I am pleased to provide you with our 2013 Annual Report.

In the past year, we have focused on gaining US Food and Drug Administration (FDA) approval for MOXDUO®, as well as working with our various strategic partners.

QRxPharma recently announced the receipt of a Complete Response Letter (CRL) in response to our New Drug Application (NDA) for immediate release MOXDUO. In order to maintain FDA review, the Company needs to re-file the NDA. We had immediately informed the FDA after we noticed that some of the data in our originally submitted Study O22, outlining better respiratory data on MOXDUO than either opiate given alone, were unfortunately corrupted in our original filing. We have since reprocessed the data and the conclusions showing that MOXDUO was better than either morphine or oxycodone alone were reconfirmed. We will resubmit the corrected data in a revised NDA in Q4 2013, following a review meeting with the FDA to be held on 3 October 2013.

With an Advisory Committee meeting and a new Prescription Drug User Fee Act (PDUFA) date now anticipated to occur in Q2 2014, we believe that a launch of MOXDUO into the US acute pain market is now within reach. The FDA previously confirmed that there were no safety issues in any of the previously submitted studies. The data we are to resubmit also confirm our previous conclusions that MOXDUO has a better respiratory profile than either of the other opiates given by themselves.

We have continued to deliver on our commercial strategy. In the past year, we have signed agreements with Paladin Labs Inc. and Aspen Group to commercialise immediate release MOXDUO in the Canadian and Australian / New Zealand / Oceania, acute pain markets respectively, and Aesica Formulation Development Limited for the worldwide promotion of QRxPharma's proprietary Stealth Beadlets®. Actavis, our commercialisation partner for the US, remains supportive of our efforts. In this vein, we look forward to successfully launching immediate release MOXDUO into the US market in the near future. Our scientific and clinical teams, alongside partners like Actavis, Paladin, Aspen and Aesica, are laying the marketing and distribution groundwork for product launches in our target markets. While there are no guarantees of success with any FDA submission, we have complied with all FDA expectations to the letter of the law.

I would like to take this opportunity to thank my fellow Board members, senior management, and the entire QRxPharma staff in both Australia and the US. We also greatly appreciate your patient and consistent support as shareholders.

Sincerely,

A handwritten signature in black ink, appearing to read 'Peter C Farrell'. The signature is fluid and cursive, with a large initial 'P'.

Peter C Farrell, PhD, ScD, AM
Chairman

CEO REVIEW



As mentioned in the Chairman's Letter, QRxPharma anticipates refiling its NDA for immediate release MOXDUO with the FDA in Q4 2013. The FDA has previously confirmed that the Company's Combination Rule Trial (Study 008) satisfied efficacy requirements, and that there were no safety issues in any of the studies submitted as part of the original NDA. In various clinical trials, QRxPharma has demonstrated a 25% to 75% reduction in nausea, vomiting, dizziness, headaches and sleepiness compared to equal analgesic doses of widely prescribed acute pain opioids.

The revised NDA requires the inclusion of additional information and analysis of Study 022 data. This comparative study of MOXDUO with single equi-analgesic doses of morphine and oxycodone indicated that MOXDUO resulted in less severe respiratory depression than either morphine or oxycodone given separately. We have been heartened by the fact that additional analyses conducted of the over 30 million data points for oxygen saturation obtained from the 375 patients who received either MOXDUO, morphine or oxycodone continue to support and strengthen these earlier conclusions. We are confident that further analysis of Study 022, and the entirety of our NDA data, will confirm MOXDUO's potential as a safe, effective alternative to other opioid formulations.

Worldwide sales for all opioids are US\$14 billion and continue to grow at 6% per annum. QRxPharma's proprietary Dual Opioid® technology, a fixed 3:2 ratio of morphine and oxycodone, are first-in-class and at present there are no combination opioid - opioid products available commercially anywhere in the world. Further, as mentioned last year, the FDA requires all combination paracetamol (acetaminophen) / opioid acute pain products containing more than 325 mg of paracetamol to be removed from the market by January 2014, due to concerns over the safety of paracetamol. This accounts for over 100 million prescriptions for Vicodin alone, the predominant acute pain opioid in the US, and creates a window of opportunity for new, potentially safer alternatives like MOXDUO.

The Company is well positioned to take advantage of this environment and assuming approval of the NDA for immediate release MOXDUO in Q2 2014, commercialisation lead by our US partner, Actavis, will follow shortly thereafter.

Complementing our portfolio and commercial partnerships, the Company recently signed a collaboration agreement with Aesica Pharmaceuticals Limited for the worldwide promotion of QRxPharma's proprietary Stealth Beadlets® abuse deterrent technology. This technology, developed for the MOXDUO controlled release formulation, may be incorporated into almost any potentially abused drug (e.g. opioids, amphetamines, sedatives, etc.) that are sold in solid dosage forms such as tablet, sachet or capsule. The non-exclusive agreement will see Aesica promote this technology to their clients for inclusion in their existing formulations of controlled drugs.

Further, the Company's efforts during the year to strengthen its intellectual property portfolio were rewarded with the issue of patent number 8,462,171 expiring in 2031, titled "Hybrid Opioid Compounds and Compositions". This patent covers a hybrid morphine-oxycodone molecule where these two different opioids are chemically linked and forms part of a broad portfolio of patents that protect MOXDUO in various formulations up until 2029.

My team and I are determined to obtain approval for MOXDUO in the coming year and we are tremendously excited about the approaching transition into a commercial stage company. I would like to thank you, our shareholders, for your support of QRxPharma, and I am confident of a successful year ahead.

A handwritten signature in black ink, appearing to read "John W. Holaday". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

John W Holaday, PhD
Managing Director, Chief Executive Officer and Chief Scientific Officer

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of QRxPharma Limited (referred to hereafter as the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2013.

DIRECTORS

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

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

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Group consisted of the development and commercialisation of biopharmaceutical products based on largely Australian research, targeting global markets with the initial efforts being focused on the US and European markets.

RESULTS

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

Revenue from continuing operations were up 112% to \$4.1 million (2012: \$1.9 million) primarily through the recognition of revenue associated with the following licences:

- On 20 December 2011, the Company signed a binding Letter of Intent (LOI) with Actavis Inc. (Actavis) to commercialise immediate release MOXDUO in the US. The LOI was secured by a non-refundable, non-creditable up front signing fee of \$5.9 million (US\$ 6 million). The fee revenue will be recognised from the date of the signing of the LOI to the anticipated FDA approval date representing an approximation of the time relating to the submission of the filing with the FDA and associated processes. The Group has recognised \$3.5 million (2012: \$1.8 million) as revenue and \$592,000 (2012: \$4.1 million) as deferred revenue in the year to 30 June 2013.
- On 9 October 2012, the Company signed a license agreement with Paladin Labs Inc. (Paladin) to commercialise immediate release MOXDUO in Canada. The license agreement was secured by a one-time, non-refundable, non-creditable upfront fee in the amount of \$485,000 (US\$ 500,000). The fee has been recognised as revenue in the year to 30 June 2013.

Operating expenditures were down by 26% to \$14.9 million (2012: \$20.2 million) and were inclusive of the following:

- Research and development expenditure of \$8.3 million (2012: \$9.2 million) which includes \$3.8 million (2012: \$3.1 million) for clinical and regulatory activities associated with the progression of the NDA for immediate release MOXDUO with the FDA, including preparation for the FDA Advisory Committee; \$0.6 million (2012: \$0.4 million) for advancing the regulatory filings for immediate release MOXDUO in Canada, Europe and Australia and \$2.9 million (2012: \$2.9 million) for product and manufacturing process development. The FY2012 expenditure also included clinical costs of \$1.3 million for two Phase I studies for MOXDUO CR, the controlled release formulation, and \$0.3 million for the Torsin programme.
- Employee benefits expense of \$4.2 million (2012: \$7.2 million), which comprises salaries and wages expense of \$2.8 million (2012: \$4.0 million) and non cash share based payments expense of \$1.4 million (2012: \$2.2 million). These employee benefits expenses were lower for FY2013 following a reduction in employee head count after the receipt of the Complete Response Letter (CRL) in June 2012 from the FDA. Further, \$nil bonuses were awarded during FY2013 (2012: \$1.0 million).
- Business development expenses of \$0.7 million (2012: \$1.3 million) associated with MOXDUO.
- Other expenses of \$1.7 million (2012: \$2.5 million). In FY2012 these other expenses included \$0.4 million for the impairment in the carrying value of the available-for-sale financial asset, representing the 6.98% investment in Venomics Hong Kong Limited by Venomics Pty Limited, as well as \$0.2 million for the purchase of foreign exchange option contracts.

LOSS PER SHARE

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

DIVIDENDS QRXPHERMA LIMITED

No dividends were paid or declared since the start of the financial year (2012: \$nil).

REVIEW OF OPERATIONS

Product Pipeline

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

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

- immediate release MOXDUO, an oral capsule for the treatment of moderate to severe acute pain;
- MOXDUO CR, a controlled-release oral tablet for chronic pain; and
- MOXDUO IV, an intravenous formulation for hospital use.

QRxPharma has also developed a proprietary abuse deterrence technology, referred to as Stealth Beadlets®, which was developed for the controlled release MOXDUO formulation for the treatment of chronic pain. Stealth Beadlets may be incorporated into almost any potentially abused drug (e.g. opioids, amphetamines, sedatives, etc.) that are sold in solid dosage forms (e.g. tablet, capsule, sachet); they provide significant resistance against the extraction of active ingredients if crushed, solubilized or heated. The Company signed a non-exclusive Collaboration Agreement with Aesica Formulation Development Limited (Aesica) to promote QRxPharma's Stealth Beadlets technology for inclusion in their clients' existing formulations of controlled drugs.

Regulatory

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

- February 2013: resubmission of a NDA to the FDA which included a comprehensive analysis of an additional study (Study 022), which demonstrated the lower risks of respiratory depression of immediate release MOXDUO when compared to either of its components; morphine or oxycodone.

REVIEW OF OPERATIONS (continued)

Regulatory (continued)

- March 2013: the FDA accepted the refiled NDA for review and set 26 August 2013 as the Prescription Drug User Fee Act (PDUFA) date for action on the Company's resubmitted NDA.
- March 2013: whilst the FDA confirmed that there were no efficacy or safety issues in any of the studies that were part of the original NDA, it determined that the resubmitted NDA, including new results from Study 022, would undergo review by an FDA Advisory Committee to evaluate the approvability of MOXDUO in the management of acute pain. The FDA subsequently set 17 July 2013 as the date for the Advisory Committee meeting.
- June 2013: the Advisory Committee Meeting of 17 July 2013 was delayed in order to allow the Company and the FDA time to fully consider more results of recent findings for Study 022. During preparation for the Advisory Committee Meeting, the Company found that for 17% of the 375 patients enrolled in Study 022, the timing of the electronically collected oxygen desaturation information at one trial site, did not accurately reflect the local time zone or changes relating to daylight savings time. For these patients, this resulted in a displacement of electronic oxygen desaturation data relative to nurse-reported events by 1 or 2 hours out of the 48-hour study.
- August 2013: the FDA issued QRxPharma a Complete Response Letter (CRL) regarding the Company's MOXDUO NDA. This will allow the Company time to complete the audit of all 30 million oxygen desaturation data points confirming data integrity and to submit further information required for the FDA to fully consider the respiratory safety advantages of MOXDUO from Study 022. With the issue of the CRL, in order to maintain FDA review, the Company is required to resubmit its NDA. QRxPharma plans to complete its refiling in Q4 2013, inclusive of the additional information and analysis as requested by the FDA. QRxPharma anticipates a new PDUFA date in Q2 2014, preceded by an Advisory Committee meeting.
- September 2013: a review meeting has been scheduled with the FDA on 3 October 2013. The meeting was granted by the FDA after issuance of the CRL, and will focus on outstanding issues that need to be addressed in the revised NDA and data validation documentation.

Commercialisation

The Company has entered into strategic collaborations with Actavis Inc. (Actavis) in December 2011, Paladin Labs Inc. (Paladin) in October 2012 and Aspen Group in September 2013 for the commercialisation of immediate release MOXDUO in the US, Canadian and Australian / New Zealand / Oceania, acute pain markets respectively.

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

Intellectual Property

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

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

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

BUSINESS STRATEGIES AND FUTURE PROSPECTS

The Group's strategy focuses on the development and commercialisation of new treatments for pain management.

Key to the development strategy is the approval of the immediate release MOXDUO NDA by the FDA which remains the principal objective of the Group for the financial year ending 30 June 2014. The regulatory position was clarified with the issue by the FDA of a CRL on 26 August 2013 advising that QRxPharma is required to resubmit its NDA for immediate release MOXDUO.

The Company plans to complete this refiling in Q4 2013 and anticipates a new PDUFA date in Q2 2014, preceded by an Advisory Committee meeting.

The NDA is the basis for US regulatory approval of immediate release MOXDUO for the treatment of moderate to severe acute pain, a \$2.5 billion segment of the \$8 billion spent annually on prescription opioids in the US.

The commercial strategy of the Group involves the securing of out-licensing deals with partners that have the regulatory and commercial capability to take MOXDUO to market. The out-license deals secured to date cover the US, Canadian and Australian / New Zealand / Oceania, acute pain markets and upon gaining marketing approval of MOXDUO in these territories, these licenses have the potential to deliver significant revenue streams in future years.

The Group intends to complete regulatory filings for immediate release MOXDUO in Europe, Canada and Australia over the next 12 months and will continue to pursue additional out-license deals in Europe and other geographies.

In addition to the commercialisation of MOXDUO the Company intends to work closely with Aesica to promote QRxPharma's Stealth Beadlets technology.

As at 30 June 2013, the Group holds cash and cash equivalents of \$12 million (2012: \$23 million). As detailed in note 1 (b) of the Financial Report the financial statements have been prepared on the going concern basis. This matter has been considered by the Group's auditors Deloitte Touche Tohmatsu and the financial statements are subject to a Matter of Emphasis as noted in the Independent auditors' report to the members of QRxPharma Limited on pages 71 to 72 of this Annual Report.

BUSINESS RISKS

The Group is currently loss-making being in a pre-product sales phase with the long term financial success of the Group measured ultimately on the basis of profitable operations. Key to becoming profitable is the successful development, approval and commercialisation of our product portfolio.

The following specific risks have the potential to affect the Group's achievement of its long term financial success. This is not an exhaustive list with the board and management continually reviewing risks of the business and their potential impact.

- *Regulatory risk.* Products and their testing may not be approved by, or can be delayed by regulatory bodies (e.g. FDA) whose approvals are necessary before products can be sold in market.

DIRECTORS' REPORT

(CONTINUED)

BUSINESS RISKS (continued)

- *Partnering risk.* Future product sales are dependent on managing existing commercial relationships together with the ability to attract new partners. There are risks in establishing and maintaining these relationships, and with the manner in which partners execute on these collaborative agreements. The Group has ongoing discussions with a variety of potential commercial partners and proactively seeks to broaden strategic alliances.
- *Intellectual property risk.* Future product sales revenues are impacted by the extent to which there is patent protection over the products. Patent coverage risk includes the risk that competitive products do not infringe the Group's intellectual property and also that our products do not infringe on other parties' products. The Group constantly monitors its patent portfolio and the intellectual property competitive landscape.
- *Funding risk.* The Group currently does not earn revenues from product sales. Accordingly, the ability of the Company to successfully bring products to market relies on having access to continued sources of funding, including from partners and investors.

ENVIRONMENTAL REGULATION

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

INFORMATION ON DIRECTORS

PETER C FARRELL PhD, ScD, AM.

Non-Executive Chairman.

Experience and expertise

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

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

Dr Farrell has received numerous prestigious awards and was admitted to membership of the Order of Australia in 2004. In 2012 he was admitted to the US National Academy of Engineering. He holds Bachelors and Masters degrees in chemical engineering from the University of Sydney and the Massachusetts Institute of Technology (MIT) respectively, a PhD in bioengineering from the University of Washington in Seattle, and a ScD from the UNSW for research related to dialysis and renal medicine.

Other current directorships

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

Former directorships in last 3 years

Nil.

Special responsibilities

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

Interests in shares and options

1,983,955 ordinary shares and 829,089 options over ordinary shares.

JOHN W HOLADAY PhD.

Managing Director, Chief Executive Officer and Chief Scientific Officer.

Experience and expertise

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

Dr Holaday serves as an officer and Fellow in several biomedical societies, has authored and edited over 200 scientific articles in journals and books, and holds over 70 patents. He served as Chairman of the Maryland BioAlliance representing over 360 biotech companies. He was a Judge for the Ernst and Young Entrepreneur of the Year Award (2003 to 2008) and was named to the Ernst and Young Entrepreneur of the Year Hall of Fame in 2006. Dr Holaday was formerly an Associate Professor of Anaesthesiology and Critical Care Medicine and Senior Lecturer in Medicine at The Johns Hopkins University of Medicine and remains as Adjunct Professor of Psychiatry at the Uniformed Services University School of Medicine, Bethesda, Maryland. Dr Holaday serves on the Board of Math for America DC, Carnegie Institute. He has received numerous honours and awards, including the 2008 Algernon Sydney Sullivan award as outstanding alumnus of the University of Alabama. Dr Holaday obtained his Doctorate in Pharmacology at the University of California, San Francisco in 1977.

Other current directorships

Nil.

Former directorships in last 3 years

Director of Neuren Pharmaceuticals Limited (ASX: NEU) (2009-August 2013).

Special responsibilities

Managing Director, Chief Executive Officer and Chief Scientific Officer.

President of QRxPharma, Inc.

Member of remuneration committee.

Interests in shares and options

7,609,635 ordinary shares (including ordinary shares held by John Holaday, John Holaday as trustee for the John Holaday Foundation and Dorinda Holaday) and 1,905,452 options over ordinary shares.

R PETER CAMPBELL FCA, FTIA.

Non-Executive Director.

Experience and expertise

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

Other current directorships

Chairman of Sonic Healthcare Limited (ASX: SHL) (director since January 1993) and Director of Silex Systems Limited (ASX: SLX) (ex-Chairman, director since July 1996).

Former directorships in last 3 years

Nil.

Special responsibilities

Chairman of audit committee.

Member of nominations committee.

Interests in shares and options

183,380 ordinary shares (including shares held by Mithena Holdings Pty Limited) and 466,635 options over ordinary shares.

GARY W PACE PhD.

Non-Executive Director and Consultant.

Experience and expertise

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

Dr Pace is a seasoned biopharmaceutical executive with over 35 years of experience in the industry. He has co-founded a number of early stage life science companies where he built products from the laboratory to commercialisation.

DIRECTORS' REPORT

(CONTINUED)

INFORMATION ON DIRECTORS (continued)

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

Other current directorships

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

Former directorships in last 3 years

Celsion Corp (NASDAQ: CLSN) (2002 – August 2011).

Special responsibilities

Nil

Interests in shares and options

3,615,268 ordinary shares and 627,726 options over ordinary shares.

MICHAEL A QUINN MBA.

Non-Executive Director.

Experience and expertise

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

Other current directorships

Director of ResMed Inc (ASX and NYSE: RMD) (director since 1992) and a member of its audit committee.

Former directorships in last 3 years

Director of CAP-XX Limited (AIM:CPX) (ex-chairman, director from 1998 – December 2012).

Special responsibilities

Member of nominations committee.

Member of audit committee.

Member of remuneration committee.

Interests in shares and options

608,987 ordinary shares (including ordinary shares held by Innovation Capital Associates Pty Limited, Kaylara Pty Limited and Rosemary Quinn). 627,726 options over ordinary shares (including options held by Innovation Capital Limited and Innovation Capital LLC).

COMPANY SECRETARY

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

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2013, and the numbers of meetings attended by each director were:

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

A = Number of meetings attended

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

* = Not a non-executive director

** = Not a member of the relevant committee

REMUNERATION REPORT

The directors are pleased to present the Group's 2013 remuneration report which sets out remuneration information for QRxPharma Limited's non-executive directors, executive director and other key management personnel.

DIRECTORS AND KEY MANAGEMENT PERSONNEL DISCLOSED IN THIS REPORT

NAME	POSITION
Non-executive and executive directors – see pages 8 to 10 above	
Other key management personnel	
Edward M Rudnic	Chief Operating Officer
Chris J Campbell	Chief Financial Officer
Richard A Paul (to 20 January 2013)	Executive Vice President Drug Development
M. Janette Dixon	Vice President Global Business Development

Changes since the end of the reporting period

There have been no changes since the end of the reporting period.

Role of the remuneration committee

The remuneration committee is a committee of the board. It is primarily responsible for making recommendations to the board on:

- remuneration levels of executive directors and other key management personnel
- the over-arching executive remuneration framework and operation of the incentive plan, and
- key performance indicators and performance hurdles for the executive team.

DIRECTORS' REPORT

(CONTINUED)

REMUNERATION REPORT (continued)

Role of the remuneration committee (continued)

Their objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company. In doing this, the remuneration committee may seek advice from independent remuneration consultants. No remuneration consultants were engaged during the current financial year.

The Corporate Governance Statement provides further information on the role of this committee.

Non-executive directors remuneration policy

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

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

Retirement allowances for non-executive directors

There are no retirement allowances for non-executive directors, in line with guidance from the ASX Corporate Governance Council on non-executive directors' remuneration. Superannuation contributions required under the Australian superannuation guarantee legislation continue to be made.

Executive remuneration policy and framework

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

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

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

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

The executive pay and reward framework has three components:

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

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

Base pay and benefits

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

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

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

Executives receive benefits including health insurance.

Superannuation

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

Short-term incentives

A variable cash incentive component is payable annually dependent upon achievement of performance targets. Individual performance targets are set by reference to components of the Group's business plan for which the individual executive is responsible. Maximum available bonuses vary from a fixed amount of \$108,150 to 50% of base pay.

Each executive has a target short-term incentive opportunity depending on the accountabilities of the role and impact on the organisation. Each year, the remuneration committee considers the appropriate targets and key performance indicators (KPIs) for each executive. For the year ended 30 June 2013, all group executives

were assessed on the achievement of a single KPI. The remuneration committee is responsible for assessing whether the KPIs are met. To help make this assessment, the committee receives detailed reports on performance from management.

Long-term incentives

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

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

Voting and comments made at the Company's 2012 Annual General Meeting

QRxPharma Limited received more than 86% of "yes" votes on its remuneration report for the 2012 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

DIRECTORS' REPORT

(CONTINUED)

REMUNERATION REPORT (continued) DETAILS OF REMUNERATION

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

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

2013	SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	SHARE-BASED PAYMENTS**	Total
	Cash salary and fees	Cash bonus	Non-monetary benefits	Other				
Name	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive directors								
Peter C Farrell	60,000	-	-	-	-	-	30,858	90,858
R Peter Campbell	40,000	-	-	-	3,600	-	26,794	70,394
Michael A Quinn	40,000	-	-	-	-	-	26,794	66,794
Gary W Pace ^	40,000	-	-	-	-	-	30,858	70,858
Sub-total non-executive directors	180,000	-	-	-	3,600	-	115,304	298,904
Executive directors								
John W Holaday	401,205	-	-	-	-	-	223,785	624,990
Other key management personnel (Group)								
Edward M Rudnic °	337,250	-	-	-	-	-	386,013	723,263
Chris J Campbell	219,724	-	-	-	19,775	-	139,346	378,845
Richard A Paul ∞ (to 20 January 2013)	165,116	-	-	237,685	-	-	(194,148)	208,653
M. Janette Dixon *	286,900	-	-	-	-	-	192,610	479,510
Total key management personnel compensation (Group)	1,590,195	-	-	237,685	23,375	-	862,910	2,714,165

** Remuneration in the form of options includes negative amounts for options forfeited during the year.

^ Gary Pace was paid \$81,049 for consulting services provided to the Company during the year in addition to the amount in the above table.

° Edward M Rudnic received an additional bonus of \$14,329 relating to the financial year ended 30 June 2012 which has been included in the above table. He also received share based payments to the value of \$121,809 for options granted when he was engaged as a consultant in prior years, and share based payments to the value of \$10,860 for options granted while he was a member of the Scientific Advisory Board in prior years, which are not included in the above table.

∞ Richard A Paul received \$237,685 per the conditions of his separation agreement.

* Fee payments were made to M. Janette Dixon pursuant to consultancy agreements held with BioComm Pacific Pte Limited.

Key management personnel and other executives of QRxPharma Limited and the Group were the same in 2012.

2012	SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT BENEFITS		LONG-TERM BENEFITS	SHARE-BASED PAYMENTS	Total
	Cash salary and fees	Cash bonus	Non-monetary benefits	Other	Super-annuation	Retirement benefits	Long service leave	Options	
Name	\$	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive directors									
Peter C Farrell	60,000	-	-	-	-	-	-	46,416	106,416
R Peter Campbell	40,000	-	-	-	3,600	-	-	46,416	90,016
Michael A Quinn	40,000	-	-	-	-	-	-	46,416	86,416
Gary W Pace [^]	40,000	-	-	-	-	-	-	46,416	86,416
Sub-total non-executive directors	180,000	-	-	-	3,600	-	-	185,664	369,264
Executive directors									
John W Holaday	368,170	190,054	-	-	-	-	-	233,609	791,833
Other key management personnel (Group)									
Edward M Rudnic ^o	121,895	63,605	-	-	-	-	-	75,997	261,497
Chris J Campbell	227,057	108,150	-	-	30,169	-	-	118,183	483,559
Richard A Paul	288,057	119,311	-	-	-	-	-	194,350	601,718
M. Janette Dixon [*]	271,511	123,251	-	-	-	-	-	163,231	557,993
Total key management personnel compensation (Group)	1,456,690	604,371	-	-	33,769	-	-	971,034	3,065,864

[^] Gary Pace was paid \$81,202 for consulting services provided to the Company during the year in addition to the amount in the above table.

^o Edward M Rudnic was appointed Chief Operating Officer on 13 February 2012. For the period from 1 July 2011 to 12 February 2012, he received consulting fees of \$210,412 and share based payments to the value of \$76,349 for options granted while he was engaged as a consultant. Additionally he received a fee of \$10,161 and share based payments to the value of \$19,359 for options granted during the financial year as a member of the Company's Scientific Advisory Board. None of these amounts have been included in the table above.

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

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

Name	FIXED REMUNERATION		AT RISK-STI		AT RISK-LTI	
	2013	2012	2013	2012	2013	2012
Directors of QRxPharma Limited						
Peter C Farrell	66%	56%	-	-	34%	44%
R Peter Campbell	62%	48%	-	-	38%	52%
Michael A Quinn	60%	46%	-	-	40%	54%
Gary W Pace	56%	46%	-	-	44%	54%
John W Holaday	64%	46%	-	24%	36%	30%
Other key management personnel of the Group						
Edward M Rudnic	47%	47%	-	24%	53%	29%
Chris J Campbell	63%	52%	-	24%	37%	24%
Richard A Paul (to 20 January 2013)	100%	48%	-	20%	**	32%
M. Janette Dixon	60%	49%	-	22%	40%	29%

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

** Percentage not disclosed as the total amount of LTI remuneration expense was negative for the relevant period.

DIRECTORS' REPORT

(CONTINUED)

REMUNERATION REPORT (continued) SERVICE AGREEMENTS

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

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

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

- Term of agreement – 2 years to 28 February 2014 (with annual extension) renegotiated from 28 February 2012.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2013 of US\$400,000, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the annual base salary.

Edward M Rudnic, Chief Operating Officer

- Term of agreement – 2 years (with annual extension) from 13 February 2012.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2013 of US\$330,000, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination without notice by the Company, other than for gross misconduct, equal to the annual base salary.

Chris J Campbell, Chief Financial Officer

- Term of agreement – ongoing, commencing 1 March 2007.
- Base salary, inclusive of superannuation, for the year ended 30 June 2013 of \$239,499, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination without notice by the Company, other than for gross misconduct, equal to three months' salary.
- Contract can be terminated by either party with three months' notice.

Richard A Paul, Executive Vice President Drug Development (to 20 January 2013)

- Term of agreement – 2 years (with annual extension) renegotiated from 1 March 2012.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2013 of US\$310,000, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the annual base salary.

M. Janette Dixon, Vice President Global Business Development

- Term of agreement – ongoing, commencing 17 August 2009 with QRxPharma Limited, and 1 October 2009 with Venomics Pty Limited. Agreements are held with M. Janette Dixon as the principal of BioComm Pacific Pte Limited.
- Base consulting fee for the contract with QRxPharma Limited for the year ended 30 June 2013 of US\$283,260 per annum (pro rata).
- Each agreement can be terminated by either party with two months' notice.

Gary W Pace, Non-Executive Director, Consultant

- Term of agreement – 1 year, renegotiated from 25 May 2013.
- Base consulting fee for the contract year ending 25 May 2013 of US\$83,000 per annum.
- Agreement can be terminated by either party with one month's notice.
- No termination benefit payable on early termination by the Company.

SHARE-BASED COMPENSATION

Options

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

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

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

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

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

Grant date	Vested and exercisable	Expiry date	Exercise price	Value per option at grant date	% Vested
31 March 2007	Over 3 years	31 March 2014	\$1.42	\$1.31	100%
14 April 2007	Over 3 years	14 April 2014	\$1.00	\$1.46	100%
25 May 2007	Over 3 years	25 May 2014	\$1.00	\$1.46	100%
25 May 2007	Over 3 years	25 May 2014	\$2.00	\$1.15	100%
1 September 2007	Over 3 years	1 September 2014	\$1.70	\$0.98	100%
1 October 2007	Over 3 years	1 October 2014	\$1.45	\$0.83	100%
9 October 2007	Over 3 years	9 October 2014	\$1.34	\$0.77	100%
1 January 2008	Over 3 years	1 January 2015	\$1.11	\$0.64	100%
1 April 2008	Over 3 years	1 April 2015	\$1.05	\$0.60	100%
1 April 2008	Over 3 years	1 April 2015	\$1.04	\$0.60	100%
1 October 2008	Over 3 years	1 October 2015	\$0.60	\$0.24	100%
4 November 2008	Over 6 months	4 November 2015	\$0.37	\$0.07	100%
1 January 2009	Over 6 months	1 January 2016	\$0.20	\$0.10	100%
1 January 2009	Over 3 years	1 January 2016	\$0.20	\$0.10	100%
31 August 2009	Over 3 years	31 August 2016	\$0.65	\$0.44	100%
1 October 2009	Over 3 years	1 October 2016	\$0.90	\$0.61	100%
16 November 2009	Over 3 years	16 November 2016	\$1.12	\$0.76	100%
1 January 2010	Over 3 years	1 January 2017	\$0.78	\$0.53	100%
17 February 2010	Over 3 years	17 February 2017	\$0.84	\$0.57	100%
24 March 2010	Over 3 years	24 March 2014	\$1.26	\$0.38	100%
1 July 2010	Over 3 years	1 July 2017	\$1.15	\$0.88	92%
24 August 2010	Over 3 years	24 August 2017	\$0.95	\$0.72	92%
1 October 2010	Over 3 years	1 October 2017	\$0.93	\$0.71	83%
25 October 2010	Over 3 years	25 October 2014	\$1.24	\$0.48	83%
8 November 2010	Over 3 years	8 November 2017	\$1.00	\$0.75	83%
1 January 2011	Over 3 years	1 January 2018	\$1.40	\$1.07	75%
1 January 2011	Over 3 years	1 January 2015	\$2.00	\$0.77	75%
7 July 2011	Over 3 years	7 July 2018	\$1.70	\$1.30	58%
28 September 2011	Over 3 years	28 September 2018	\$1.22	\$0.93	58%
18 November 2011	Over 3 years	18 November 2018	\$1.60	\$1.20	50%
23 January 2012	Over 3 years	23 January 2019	\$1.50	\$1.12	42%
23 January 2012	Over 3 years	23 January 2016	\$2.15	\$0.80	42%
1 April 2012	Over 3 years	1 April 2019	\$1.72	\$1.29	33%
7 November 2012	Over 3 years	7 November 2019	\$1.00	\$0.50	0%
7 November 2012	Over 3 years	7 November 2016	\$1.03	\$0.38	0%
7 November 2012	Over 3 years	7 November 2019	\$0.72	\$0.53	0%
7 November 2012	Immediately	7 November 2019	\$0.72	\$0.53	0%
19 February 2013	Over 3 years	19 February 2020	\$0.94	\$0.70	0%

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

DIRECTORS' REPORT

(CONTINUED)

REMUNERATION REPORT (continued) SHARE BASED COMPENSATION (continued)

Details of options over ordinary shares in the Company provided as remuneration to each director of QRxPharma Limited and each of the key management personnel of the parent entity and the Group are set out below. When exercisable, each option is convertible into one ordinary

share of QRxPharma Limited. Further information on the options is set out in notes 21 and 30 to the financial statements. The plan rules contain a restriction on removing the "at risk" aspect of instruments granted to executives. Plan participants may not enter into any transaction designed to remove the "at risk" aspect of an instrument before it vests.

	Number of options granted during the year	Value of options at grant date*	Number of options vested during the year	Number of options lapsed during the year	Value at lapse date**
Directors of QRxPharma Limited					
Peter C Farrell	75,000	37,500	50,000	-	-
R Peter Campbell	75,000	28,500	50,000	-	-
Michael A Quinn	75,000	28,500	50,000	-	-
Gary W Pace	75,000	37,500	50,000	-	-
John W Holaday	300,000	150,000	208,333	-	-
Other key management personnel					
Edward M Rudnic [^]	500,000	265,000	116,667	-	-
Chris J Campbell	200,000	76,000	137,500	-	-
Richard Paul (to 20 January 2013)	150,000	79,500	-	600,000	571,000
M. Janette Dixon	200,000	106,000	133,333	-	-

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

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

[^] In addition to the above, 91,667 options vested during the year in relation to options Edward M Rudnic received as a consultant and 24,167 options vested during the year in relation to options he received as a member of the Scientific Advisory Board.

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

Shares provided on exercise of remuneration options

There were no ordinary shares in the Company provided as a result of the exercise of remuneration options to each director of QRxPharma Limited and other key management personnel of the Group in the year to 30 June 2013.

Details of remuneration: Bonuses and share-based compensation benefits

For each cash bonus and grant of options included in the tables on pages 14, 15 and 18, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonus is payable in future years. The vesting period for each option issued up to 31 December 2008 is 3 years, or as varied by the board, one third vesting 12 months from the date of grant and the balance vesting equally each year over the remaining two year period. Options issued from 1 January 2009 generally vest over 3 years with the initial vesting on the first anniversary of the date of the grant and subsequent vesting's in 8 equal tranches on the first day of each calendar quarter over the following 2 years. No options will vest if the conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

Name	BONUS		SHARE-BASED COMPENSATION BENEFITS (OPTIONS)			
	Paid %	Forfeited %	Year Granted	Vested %	Forfeited %	Financial years in which options may vest
Directors of QRxPharma Limited						
Peter C Farrell	-	-	2013 2011 2007	0% 83% 100%	- - -	2014 - 2016 2014 -
R Peter Campbell	-	-	2013 2011 2007	0% 83% 100%	- - -	2014 - 2016 2014 -
Michael A Quinn	-	-	2013 2011 2007	0% 83% 100%	- - -	2014 - 2016 2014 -
Gary W Pace	-	-	2013 2011 2007	0% 83% 100%	- - -	2014 - 2016 2014 -
John W Holaday	-	-	2013 2012 2011 2010 2007	0% 50% 83% 100% 100%	- - - - -	2014 - 2016 2014 - 2015 2014 - -
Other key management personnel						
Chris J Campbell	-	-	2013 2012 2011 2010 2009 2007	0% 42% 75% 100% 100% 100%	- - - - - -	2014 - 2016 2014 - 2015 2014 - - -
Edward M Rudnic	-	-	2013 2012	0% 33%	- -	2014-2016 2014-2015
M. Janette Dixon	-	-	2013 2012 2011 2010 2010 2009	0% 42% 75% 100% 100% 100%	- - - - - -	2014 - 2016 2014 - 2015 2014 - - -
Richard A Paul	-	100%	2013 2012 2011	- - -	100% 100% 100%	- - -

DIRECTORS' REPORT

(CONTINUED)

SHARES UNDER OPTION

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

DATE OPTIONS GRANTED	EXPIRY DATE	ISSUE PRICE OF SHARES	NUMBER UNDER OPTION
31 March 2007	31 March 2014	\$1.42	402,726
14 April 2007	14 April 2014	\$1.00	2,013,630
25 May 2007	25 May 2014	\$1.00	502,726
25 May 2007	25 May 2014	\$2.00	1,398,450
1 September 2007	1 September 2014	\$1.70	50,000
1 October 2007	1 October 2014	\$1.45	75,000
9 October 2007	9 October 2014	\$1.34	50,000
1 January 2008	1 January 2015	\$1.11	200,000
1 April 2008	1 April 2015	\$1.04	75,000
1 April 2008	1 April 2015	\$1.05	600,000
1 January 2009	1 January 2016	\$0.20	60,000
31 August 2009	31 August 2016	\$0.65	299,583
16 November 2009	16 November 2016	\$1.12	300,000
1 January 2010	1 January 2017	\$0.78	100,000
17 February 2010	17 February 2017	\$0.84	404,584
24 March 2010	24 March 2014	\$1.26	276,250
1 July 2010	1 July 2017	\$1.15	225,000
24 August 2010	24 August 2017	\$0.95	50,000
1 October 2010	1 October 2017	\$0.93	150,000
25 October 2010	25 October 2014	\$1.24	25,000
8 November 2010	8 November 2017	\$1.00	850,000
1 January 2011	1 January 2018	\$1.40	832,500
1 January 2011	1 January 2015	\$2.00	290,000
7 July 2011	7 July 2018	\$1.70	150,000
28 September 2011	28 September 2018	\$1.22	15,000
18 November 2011	18 November 2018	\$1.60	250,000
23 January 2012	23 January 2016	\$2.15	300,000
23 January 2012	23 January 2019	\$1.50	870,000
1 April 2012	1 April 2019	\$1.72	350,000
7 November 2012*	7 November 2019	\$1.00	450,000
7 November 2012*	7 November 2016	\$1.03	430,000
7 November 2012*	7 November 2019	\$0.72	1,065,000
19 February 2013	19 February 2020	\$0.94	300,000
			13,410,449

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

*Included in these options were options granted to key management personnel which are disclosed on page 18.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

The following ordinary shares of QRxPharma Limited were issued during the year ended 30 June 2013 on the exercise of options granted under the QRxPharma Limited Employee Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
1 January 2009	\$0.20	40,000
31 August 2009	\$0.65	30,900
1 October 2009	\$0.90	137,500
		208,400

INDEMNIFICATION

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

INSURANCE OF OFFICERS

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

NON-AUDIT SERVICES

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

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

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

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

DIRECTORS' REPORT

(CONTINUED)

NON-AUDIT SERVICES (continued)

	2013	2012
	\$	\$
(a) Auditor of the Group		
<i>Taxation services</i>		
<i>Tax compliance services</i>		
PricewaterhouseCoopers Australia	-	9,270
<i>Tax consulting and advice</i>		
Deloitte Touche Tohmatsu Australia	12,500	-
PricewaterhouseCoopers Australia	-	106,788
Total remuneration for taxation services	12,500	116,058
(b) Related practices of the Auditor		
<i>Taxation services</i>		
<i>Tax compliance services</i>		
PricewaterhouseCoopers	-	33,974
<i>International tax consulting and advice</i>		
PricewaterhouseCoopers	-	11,006
Total remuneration for taxation services	-	44,980
Total remuneration for non-audit services	12,500	161,038

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 23.

ROUNDING OF AMOUNTS

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

AUDITOR

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the Corporations Act 2001.



This report is made in accordance with a resolution of directors.
Peter C Farrell
Director

Sydney
19 September 2013

The Board of Directors
QRxPharma Limited
1/194 Miller Street
North Sydney NSW 2060

19 September 2013

Dear Board Members

QRxPharma Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of QRxPharma Limited.

As lead audit partner for the audit of the financial statements of QRxPharma Limited for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit, and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Delaney

X Delaney
Partner
Chartered Accountants
Parramatta, 19 September 2013

CORPORATE GOVERNANCE STATEMENT

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

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

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

The responsibilities of the board include:

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

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

A performance assessment for senior executives last took place in May 2013 during the remuneration committee's annual assessment of performance bonuses. To help make this assessment, the committee receives detailed reports on performance from management.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

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

Board composition

The charter states:

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

The board seeks to ensure that:

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

Directors' independence

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

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- is or has been employed in an executive capacity by the Company or any other Group member, within three years before commencing to serve on the board
- within the last three years has been a principal of a material

professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided

- is a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- has a material contractual relationship with the company or a controlled entity other than as a director of the Group
- is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Group.

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

The board regularly assesses director independence having regard to the criteria outlined in the Principles. To enable this process, the directors must provide all information that may be relevant to the assessment. During the financial year ended 30 June 2013, Peter C Farrell, R Peter Campbell and Gary W Pace were considered to be independent for the entire year, while Michael A Quinn is considered to be independent from 21 November 2012.

Board members

Details of the members of the board, their experience, expertise, qualifications, term of office, relationships affecting their independence and their independent status are set out in the directors' report under the heading "Information on directors" on pages 8 to 10. At the date of signing the directors' report, there is one executive director and four non-executive directors.

Non-executive directors

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

Term of office

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

Chair

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

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

CORPORATE GOVERNANCE STATEMENT

(CONTINUED)

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE (continued) Chief Executive Officer (CEO)

The CEO is responsible for implementing Group strategies and policies.

Commitment

The number of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2013, and the number of meetings attended by each director is disclosed on page 11.

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

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

Independent professional advice

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

Avoidance of conflict of interest

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

Performance assessment

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

Board committees

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

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

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

Nominations committee

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

Details of these directors' attendance at nomination committee meetings are set out in the directors' report on page 11.

The main responsibilities of the committee are to:

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

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

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

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

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

The Company maintains a Securities Trading Policy, which was amended on 17 August 2011, and is available on the Company website. It is contrary to the Company's policy for directors, officers and employees to be engaged in short term trading of the Company's securities. All directors, officers and employees are prohibited from dealing in any QRxPharma Limited securities, except while not in possession of unpublished price sensitive information. Directors, officers and employees may only then deal in the Company's securities during a specified period of 45 days after the release of the Company's half-yearly or annual results, after release of the Company's Appendix 4C quarterly report for the quarter ended 31 March, after the AGM, or during the period in which the Company

has a prospectus or other disclosure documents on issue under which people can subscribe for securities. Directors must obtain the approval of the Chairman and employees the approval of the Company Secretary prior to dealing in the Company's securities outside those periods.

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

Diversity Policy

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

The board has considered its responsibilities in relation to establishing measurable objectives to achieve diversity and has decided not to create formal objectives given the size of the Company's workforce and its high staff retention rate. Whilst the board has elected not to establish formal objectives for diversity, it remains responsible for managing the diversity of the Company's workforce and will give due consideration to these responsibilities in determining any future appointments.

The Group's gender diversity statistics are as follows;

- | | |
|---|-----|
| • <i>Proportion of female employees in the Group</i> | 64% |
| • <i>Proportion of females in senior executive positions of the Group</i> | 33% |
| • <i>Proportion of females on the Board</i> | 0% |

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and risk committee

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

Details of these directors' qualifications and attendance at audit committee meetings are set out in the directors' report on pages 9 to 11.

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

CORPORATE GOVERNANCE STATEMENT

(CONTINUED)

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING (continued)

Audit and risk committee (continued)

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

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

In fulfilling its responsibilities, the audit and risk committee:

- receives regular reports from management and external auditors
- meets with the external auditors at least twice a year, or more frequently if necessary
- reviews the processes the CEO and Chief Financial Officer (CFO) have in place to support their certificates to the board
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- meets separately with the external auditors at least twice a year without the presence of management
- provides the external auditors with a clear line of direct communication at any time to either the Chair of the audit and risk committee or the Chair of the board

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

External auditors

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

An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in the directors' report and in note 22 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

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

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

Continuous disclosure and shareholder communication

The Company has written policies on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies also include the arrangements the Company has in place to promote communication with shareholders and encourage effective participation at general meetings. The Shareholder Communication Policy and Continuous Disclosure Policy having regard to the ASX Code of Best Practice for Reporting by Life Science Companies, are available on the Company's website.

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

All disclosures made to the ASX, and all information provided to analysts or the media during briefings are promptly posted on the Company's website. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

All shareholders have the option to receive a copy of the Company's annual report. In addition, the Company seeks to provide opportunities for shareholders to participate through electronic means. All Company announcements, media briefings, details of Company meetings, press releases and financial reports for the last three years are available on the Company's website. Where possible, the Company arranges for advance notification of significant Group briefings and makes them widely accessible, including through the use of mass communication mechanisms as may be practical.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound system of risk management and internal control. Detailed work on this task is delegated to the audit and risk committee and reviewed by the full board as detailed in the Risk Management Policy adopted by the Company on 17 August 2011.

The audit and risk committee is responsible for ensuring there is an adequate framework in relation to risk management, compliance and internal control systems. In providing this oversight, the committee:

- reviews the framework and methodology for risk identification, the degree of risk the Company is willing to accept, the

management of risk and the processes for auditing and evaluating the Company's risk management system

- reviews Group-wide objectives in the context of the above mentioned categories of corporate risk
- reviews and, where necessary, approves guidelines and policies governing the identification, assessment and management of the Company's exposure to risk
- reviews and approves the delegations of financial authorities and addresses any need to update these authorities on an annual basis, and
- reviews compliance with agreed policies.

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

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

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

Corporate Reporting

In complying with recommendation 7.3, the CEO and CFO have provided the following written declarations in accordance with section 295A of the Corporations Act:

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

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration Committee

The remuneration committee is currently comprised of Peter C Farrell (Chairman) and Michael A Quinn, both independent, non-executive directors, and John W Holaday, the Managing Director, CEO and Chief Scientific Officer (CSO). Whilst Dr. Holaday sits on the remuneration committee, he does not participate in decisions relating to his own performance and remuneration.

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report on page 11.

CORPORATE GOVERNANCE STATEMENT

(CONTINUED)

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY (continued)

Remuneration Committee (continued)

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

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the remuneration committee on an annual basis and, where necessary, is revised in consultation with the relevant employee.

Further information on directors' and executives' remuneration is set out in the Directors' Report under the heading "Remuneration Report". In accordance with Group policy, participants in equity based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements. Details of this policy can be found on the Company's website.

The committee also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions. This includes ensuring due consideration is given to diversity of executives and staff below board level.

FINANCIAL REPORT

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

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

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

The financial statements were authorised for issue by the directors on 19 September 2013. The directors have the power to amend and reissue the financial statements.

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

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2013

		2013	2012
	Notes	\$'000	\$'000
Revenue from continuing operations	5	4,066	1,919
Other income	6	747	2,266
Research and development expense	7	(8,260)	(9,162)
Employee benefits expense	7	(4,204)	(7,192)
Depreciation and amortisation	7	(64)	(65)
Business development expense		(675)	(1,343)
Other expenses		(1,690)	(2,468)
Loss before income tax		(10,080)	(16,045)
Income tax benefit	8	-	-
Loss from continuing operations		(10,080)	(16,045)
Loss for the year		(10,080)	(16,045)

Other comprehensive income

Items that may be reclassified subsequently to profit or loss

Exchange differences on translation of foreign operations		149	82
Other comprehensive income for the year, net of tax		149	82
Total comprehensive (loss) for the year		(9,931)	(15,963)

Loss for the year is attributable to:

Owners of QRxPharma Limited		(10,075)	(15,949)
Non-controlling interests		(5)	(96)
		(10,080)	(16,045)

Total comprehensive (loss) is attributable to:

Owners of QRxPharma Limited		(9,926)	(15,867)
Non-controlling interests		(5)	(96)
		(9,931)	(15,963)

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

		Cents	Cents
Basic loss per share	28	(7.0)	(11.2)
Diluted loss per share	28	(7.0)	(11.2)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

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

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2013

	ATTRIBUTABLE TO THE OWNERS OF QRXPHERMA LIMITED					
	Contributed equity	Reserves	Accumulated Losses	Total	Non- controlling interests	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2011	118,809	9,025	(121,357)	6,477	50	6,527
Loss for the year as reported in the 2012 financial statements	-	-	(15,949)	(15,949)	(96)	(16,045)
Other comprehensive income	-	82	-	82	-	82
Total comprehensive loss for the year	-	82	(15,949)	(15,867)	(96)	(15,963)

Transactions with owners in their capacity as owners:

Contributions of equity, net of transaction costs	25,472	-	-	25,472	-	25,472
Employee share scheme	-	2,162	-	2,162	-	2,162
	25,472	2,244	(15,949)	11,767	(96)	11,671
Balance at 30 June 2012	144,281	11,269	(137,306)	18,244	(46)	18,198
Loss for the year	-	-	(10,075)	(10,075)	(5)	(10,080)
Other comprehensive income	-	149	-	149	-	149
Total comprehensive loss for the year	-	149	(10,075)	(9,926)	(5)	(9,931)

Transactions with owners in their capacity as owners:

Contributions of equity, net of transaction costs	152	-	-	152	-	152
Employee share scheme	-	1,428	-	1,428	-	1,428
	152	1,577	(10,075)	(8,346)	(5)	(8,351)
Balance at 30 June 2013	144,433	12,846	(147,381)	9,898	(51)	9,847

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2013

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

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

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

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

(i) New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(ii) Compliance with IFRS

The consolidated financial statements of QRxPharma Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(iii) Historical cost convention

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

(iv) Critical accounting estimates

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

(v) Early adoption of standards

The Group has elected not to apply any pronouncement before their operative date in the annual reporting period beginning 1 July 2012.

b) Going concern

The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities

and the realisation of assets and the settlement of liabilities in the ordinary course of business.

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

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

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

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

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Company and the Group not continue as going concerns.

c) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of QRxPharma Limited ("company" or "parent entity") as at 30 June 2013 and the results of all subsidiaries for the year then ended. QRxPharma Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Principles of consolidation (continued)

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

(ii) Changes in ownership interests

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

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

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

d) Segment reporting

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

e) Foreign currency 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 statement of comprehensive income, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses are presented in the income statement on a net basis within other income or net foreign exchange loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(iii) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each profit and loss are translated at the exchange rate on the dates of the transactions, and
- all resulting exchange differences are recognised in other comprehensive income.

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

f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns and trade allowances. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on current available information, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Interest income

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

g) Income tax

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

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

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

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

Tax consolidation legislation

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

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

h) Business combinations

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Business combinations (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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

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

i) Impairment of assets

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

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

j) Grant income

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

k) Cash and cash equivalents

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

l) Investments and other financial assets

Classification

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

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

Recognition and derecognition

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

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

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair

value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

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

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(i) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(ii) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments and other financial assets (continued)

between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

m) Plant and equipment

Plant and equipment are stated at historical costs less depreciation.

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

Plant and equipment	4-5 years
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The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

n) Intangible assets

(i) Intellectual property

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

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

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

(ii) Research and development

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

o) Trade and other payables

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

Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

p) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 24). Payments made under operating leases (net of any incentive received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

q) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Long service leave

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

(iii) Retirement benefit obligations

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

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

(iv) Share-based payments

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

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

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

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

(v) Bonus plans

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

(vi) Employee benefit on-costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Employee benefits (continued)

(vii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

r) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

s) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

t) Derivatives

Derivatives that do not qualify for hedge accounting

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

u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

v) Rounding of amounts

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

w) Parent entity financial information

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

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries are accounted for at cost in the financial statements of QRxPharma Limited.

(ii) Tax consolidation legislation

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

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

(iii) Share based payments

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

x) New accounting standards and interpretations

(i) Standards and interpretations adopted during the period

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

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

(ii) Standards and interpretations in issue not yet adopted

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x) New accounting standards and interpretations (continued)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<i>AASB 9 Financial Instruments (December 2009), AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2012-6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures'</i>	1 January 2015	30 June 2016
<i>AASB 10 Consolidated Financial Statements</i>	1 January 2013	30 June 2014
<i>AASB 11 Joint Arrangements</i>	1 January 2013	30 June 2014
<i>AASB 12 Disclosure of Interests in Other Entities</i>	1 January 2013	30 June 2014
<i>AASB 127 Separate Financial Statements (2011)</i>	1 January 2013	30 June 2014
<i>AASB 128 Investments in Associates and Joint Ventures (2011)</i>	1 January 2013	30 June 2014
<i>AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards</i>	1 January 2013	30 June 2014
<i>AASB 119 Employee Benefits (2011), AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (2011)</i>	1 January 2013	30 June 2014
<i>AASB 13 Fair Value Measurement, AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13</i>	1 January 2013	30 June 2014
<i>AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'</i>	1 January 2013	30 June 2014

2 FINANCIAL RISK MANAGEMENT

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

The Group holds the following financial instruments:

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

(a) Market risk

(i) Foreign exchange risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

2 FINANCIAL RISK MANAGEMENT (continued)

Group sensitivity

Based on the financial instruments held at 30 June 2013, had the Australian dollar weakened / strengthened by 15% (2012: 15%) against the US dollar with all other variables held constant, the Group's post-tax loss for the year would have been \$2.0 million lower / \$1.5 million higher (2012: \$4.6 million lower / \$3.4 million higher), mainly as a result of foreign exchange gains / losses on translation of US dollar denominated financial instruments as detailed in the above table. The Group's exposure to other foreign exchange movements is not material.

(ii) Price risk

The Group and the parent entity are not exposed to equity securities price risk or commodity price risk.

(iii) Cash flow and interest rate risk

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

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

Group sensitivity

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

(b) Credit risk

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

(c) Liquidity risk

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

The Group has experienced recurring operating losses and operating cash outflows since inception to 30 June 2013. Due to negative operating cash flow position the Group has not committed to any credit facilities and relied upon equity financing through private and public equity investors.

The Group entity's exposure to liquidity risk is restricted to the value of outstanding trade creditors. Trade payables generally have 30 day payment terms, and at 30 June 2013, the Group had no overdue liabilities. The value of trade creditors at 30 June 2013 for the Group was \$1,160,000 (2012: \$757,000) which is payable within 1 month of year end and at 30 June 2013, the entity carried cash and cash equivalents of \$12 million (2012: \$23 million). Other payables for the Group include accruals for employee benefits and other accruals to the value of \$1,024,000 (2012: \$1,801,000).

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions

that are based on market conditions existing at the end of each reporting period. Quoted market prices for similar instruments and recent transactions are used to estimate fair value. The Group has fully impaired the available-for-sale financial assets to \$nil at 30 June 2013 (2012: \$nil).

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

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

(d) Fair value measurements

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

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

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

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Research and development expenditure

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

Impairment of intangible assets

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

Black-Scholes option pricing model

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

Impairment of available-for-sale financial assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Revenue recognition

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

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

4 SEGMENT INFORMATION

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

5 REVENUE

	2013	2012
	\$'000	\$'000
From continuing operations		
License fee received	4,006	1,805
Interest	60	114
	4,066	1,919

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

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

6 OTHER INCOME

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

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

7 EXPENSES

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

8 INCOME TAX BENEFIT

	2013	2012
	\$'000	\$'000

(a) Numerical reconciliation of income tax expense to prima facie tax payable

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

(b) Tax losses

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

8 INCOME TAX BENEFIT (continued)

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.

(c) Tax consolidation legislation

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

9 CURRENT ASSETS - CASH AND CASH EQUIVALENTS

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

(a) Cash at bank

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

(b) Term deposits

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

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

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

10 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

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

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

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value and at 30 June 2013 no receivables were impaired or past due (30 June 2012: \$nil).

11 CURRENT ASSETS - OTHER CURRENT ASSETS

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

12 NON-CURRENT ASSETS - PLANT AND EQUIPMENT

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

13 NON-CURRENT ASSETS - AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2013	2012
	\$'000	\$'000
Unlisted Securities		
Equity securities	-	-

Investments in related parties

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14 NON CURRENT ASSETS - INTANGIBLE ASSETS

	Patents, trademarks and other rights	Other intangible assets	Total
	\$'000	\$'000	\$'000
Year ended 30 June 2012			
Opening net book amount	-	-	-
Impairment of intellectual property	-	-	-
Amortisation charge	-	-	-
Closing net book amount	-	-	-
At 30 June 2012			
Cost	15,502	889	16,391
Accumulated amortisation and impairment	(15,502)	(889)	(16,391)
Net book amount	-	-	-
	Patents, trademarks and other rights	Other intangible assets	Total
	\$'000	\$'000	\$'000
Year ended 30 June 2013			
Opening net book amount	-	-	-
Impairment of intellectual property	-	-	-
Amortisation charge	-	-	-
Closing net book amount	-	-	-
At 30 June 2013			
Cost	15,502	889	16,391
Accumulated amortisation and impairment	(15,502)	(889)	(16,391)
Net book amount	-	-	-

15 CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

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

16 PROVISIONS

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

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

17 OTHER CURRENT LIABILITIES

	2013	2012
	\$'000	\$'000
Deferred revenue – see note 5	592	4,055

18 CONTRIBUTED EQUITY

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

18 CONTRIBUTED EQUITY (continued)
(b) Movements in ordinary share capital:

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

(c) Ordinary shares

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

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

(d) Options

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

(e) Capital risk management

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

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

19 RESERVES AND ACCUMULATED LOSSES

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

(b) Accumulated losses

Movements in accumulated losses were as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

19 RESERVES AND ACCUMULATED LOSSES (continued)

(c) Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payment reserve is used to recognise:

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

(ii) Foreign currency translation reserve

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

(iii) Transactions with non-controlling interests

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

20 NON-CONTROLLING INTERESTS

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

21 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

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

(i) Chairman - non-executive

Dr Peter C Farrell

(ii) Executive director

Dr John W Holaday, Managing Director, Chief Executive Officer and Chief Scientific Officer

(iii) Non-executive directors

Dr Gary W Pace, Consultant

Michael A Quinn

R Peter Campbell

(b) Other key management personnel

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

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

c) Key management personnel compensation

	2013	2012
	\$	\$
Short-term employee benefits	1,827,880	2,061,061
Post-employment benefits	23,375	33,769
Share-based payments	862,910	971,034
	2,714,165	3,065,864

The Company has taken advantage of the relief provided by Corporations Regulations and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in the remuneration report on pages 11 to 19.

(d) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on pages 11 to 19.

(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 on the following page.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

21 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)
(d) Equity instrument disclosures relating to key management personnel (continued)

2013

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

2012

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

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

(iii) Share holdings

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

2013

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

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

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

2012

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

21 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(e) Other transactions with key management personnel

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

22 REMUNERATION OF AUDITORS

	2013	2012
(a) Auditor of the Group	\$	\$
Audit & other assurance services		
<i>Deloitte Touche Tohmatsu Australia</i>	90,000	-
<i>PricewaterhouseCoopers Australia</i>	-	111,000
Total remuneration for audit and other assurance services	90,000	111,000
Taxation services		
Tax compliance services		
<i>PricewaterhouseCoopers Australia</i>	-	9,270
Tax consulting and advice		
<i>Deloitte Touche Tohmatsu Australia</i>	12,500	-
<i>PricewaterhouseCoopers Australia</i>	-	106,788
Total remuneration for taxation services	12,500	116,058
Total remuneration of Deloitte Touche Tohmatsu Australia	102,500	-
Total remuneration of PricewaterhouseCoopers Australia	-	227,058

(b) Newtwork firms of the auditor of the Group

Taxation services		
Tax compliance services		
<i>PricewaterhouseCoopers</i>	-	33,974
International tax consulting and advice		
<i>PricewaterhouseCoopers</i>	-	11,006
Total remuneration of related practices of the auditor of the Group	-	44,980
Total auditors remuneration		
<i>Deloitte Touche Tohmatsu Australia</i>	102,500	-
<i>PricewaterhouseCoopers</i>	-	272,038
	102,500	272,038

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

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

23 CONTINGENCIES

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

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

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

24 COMMITMENTS

Operating leases

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

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

25 RELATED PARTY TRANSACTIONS

(a) Subsidiaries

Interests in subsidiaries are set out in note 26.

(b) Key management personnel

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

(c) Outstanding balances

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

26 SUBSIDIARIES

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

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

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

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

28 LOSS PER SHARE

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

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

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

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

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

(e) Information concerning the classification of securities
Options

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

29 PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

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

(b) Guarantees entered into by the parent entity

There are no guarantees entered into by the parent entity.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2013 or 30 June 2012.

(d) Commitments of the parent entity

The parent entity leases office premises in Sydney, Australia.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

29 PARENT ENTITY FINANCIAL INFORMATION (continued)

(e) Convertible Note

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

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

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

30 SHARE-BASED PAYMENTS

(a) QRxPharma Employee Share Option Plan (ESOP)

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

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

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

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

Options will lapse if they are not exercised before the expiration date or if the option holder leaves the employment of the Group.

Options granted under the plan carry no dividend or voting rights. The vesting period for each option issued up to 31 December 2008 is 3 years, or as varied by the board, one third vesting 12 months from the date of grant and the balance vesting equally each year over the remaining two year period. Options issued from 1 January 2009 generally vest over 3 years with the initial vesting on the first anniversary of the date of the grant and subsequent vestings in 8 equal tranches on the first day of each calendar quarter over the following 2 years. When exercisable, each option is convertible into one ordinary share and entitles the holder to the same ordinary share rights as set out in note 18. Shares issued under the scheme may be sold at the expiration of any Restriction Agreement between the eligible employee and the Company. Such restrictions may be imposed by the remuneration committee upon the

grant of options under the option plan and such restrictions will be contained in the Option Agreement between the eligible employee and the Company. In all other respects the shares rank equally with other fully paid ordinary shares on issue (refer to note 18(c)).

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

2013

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

30 SHARE-BASED PAYMENTS (continued)

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

2012

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

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

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

Fair value of options granted

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

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

- (a) exercise price: \$0.72 to \$1.03 (2012 - \$1.22 to \$2.15)
- (b) grant date: 7 November 2012, 19 February 2013 (2012 - 7 July 2011, 28 September 2011, 18 November 2011, 23 January 2012, 1 April 2012)
- (c) expiry date: 7 November 2016, 7 November 2019, 19 February 2020 (2012 - 7 July 2018, 28 September 2018, 18 November 2018, 23 January 2019, 23 January 2016, 1 April 2019)
- (d) share price at grant date: \$0.72 to \$0.94 (2012 - \$1.22 to \$1.85)
- (e) expected price volatility of the Company's shares: 80% (2012 - 80%)
- (f) expected dividend yield: nil% (2012 - nil%)
- (g) risk free interest rate: 3.08% (2012 - 4.09%)

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

(c) Expenses arising from share based payment transactions

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

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

31 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

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

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

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 31 to 69 are in accordance with the *Corporations Act 2001*, including:

- (i) *complying with Accounting Standards, the Corporations Act 2001 and other mandatory professional reporting requirements; and*
- (ii) *giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of their performance for the financial year ended on that date; and*

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

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

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

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



Peter C Farrell
Director

Sydney
19 September 2013

Independent Auditor's Report to the Members of QRxPharma Limited

Report on the Financial Report

We have audited the accompanying financial report of QRxPharma Limited, which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 31 to 70.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of QRxPharma Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion, the financial report of QRxPharma Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without modifying our opinion, we draw attention to Note 1 in the financial report which indicates that the consolidated entity incurred a net loss of \$10.1 million (2012: \$16 million) and had net cash outflows from operating activities of \$11.7 million (2012: \$11.7 million) during the year ended 30 June 2013. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the company's and consolidated entity's ability to continue as going concerns and therefore, the company and the consolidated entity may be unable to realise their assets and extinguish their liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 19 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of QRxPharma Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Delaney

X Delaney
Partner
Chartered Accountants
Parramatta, 19 September 2013

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 6 September 2013.

A. DISTRIBUTION OF EQUITY SECURITIES

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

	Shares	Options
1–1,000	384	-
1,001–5,000	684	-
5,001–10,000	472	2
10,001–100,000	846	15
100,001 and over	127	23
	2,513	40

There are 291 holders of less than a marketable parcel of ordinary shares.

B. EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders.

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

Name	ORDINARY SHARES	
	Number held	Percentage of issued shares
HSBC Custody Nominees (Australia) Limited	22,551,198	15.58%
JP Morgan Nominees Australia Limited	9,422,663	6.51%
Auckland Trust Company Limited	7,288,750	5.03%
Citicorp Nominees Pty Limited	6,848,644	4.73%
Dr John Holaday	6,609,635	4.57%
National Nominees limited	6,434,427	4.44%
Werft Pty Ltd	5,619,315	3.88%
Uniquest Pty Limited	4,805,399	3.32%
Dr Gary Pace	3,615,268	2.50%
Jigley Holdings Pty Limited	3,600,000	2.49%
UBS Nominees Pty Limited	2,695,289	1.86%
UIIT Pty Limited	2,610,408	1.80%
Merrill Lynch (Australia) Nominees Pty Limited	2,285,046	1.58%
Spring Ridge Ventures I, LP	2,128,673	1.47%
Dr Peter Farrell	1,983,955	1.37%
Tesroff Pty Limited	1,495,055	1.03%
Mrs Dorinda Holaday	1,000,000	0.69%
Mr Ross Eddison	788,200	0.54%
ITR Investments Pty Limited	785,151	0.54%
HSF1 Pty Limited	740,000	0.51%
	93,307,076	64.44%

SHAREHOLDER INFORMATION

(CONTINUED)

Unquoted equity securities

	Number on issue	Number of holders
Options issued under the QRxPharma Limited Employee Share Option Plan to take up ordinary shares	13,410,449*	40**

* Number of unissued ordinary shares under the options.

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

C. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

Ordinary shares

	Number held	Percentage
Allen Gray Investment Management	18,822,019	13.00%
Mr LA Walker, Auckland Trust Company, Tesroff Pty Limited and Werft Pty Limited	14,403,120	9.95%
Dr John W Holaday, Dorinda Holaday and Holaday Foundation	7,609,635	5.26%

D. VOTING RIGHTS

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

(a) Ordinary shares

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

(b) Options

No voting rights.

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