QRxPharma Limited

ABN 16 102 254 151

ASX Half year report – 31 December 2007

Lodged with the ASX under Listing Rule 4.2A

This report is to be read in conjunction with the financial statements for the year ended 30 June 2007 and any public announcements made by QRxPharma Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Contents

QRxPharma Limited

ABN 16 102 254 151

Reporting period: Half year ended 31December 2007
(Previous corresponding period: Half year ended 31 December 2006)

Results for announcement to the market

				A$'000
Revenue from ordinary activities	**Up**	**32,350%**	to	**1,298**
Net loss from ordinary activities after tax	**Up**	**151%**	to	**(6,724)**
Net loss for the half year attributable to members	**Up**	**151%**	to	**(6,724)**

Note:

1. The Revenue from ordinary activities is represented by Interest Income earned from funds raised from the Company's IPO which was finalised on 25 May 2007. At 31 December 2007 the Company retains $40.7 million (30 June 2007 $46.2 million) in cash reserves and short term investments. During the corresponding half year the Company had minimal cash reserves and short term investments holding $0.1 million at 31 December 2006 (30 June 2006 $0.3 million).

2. During the previous half-year period ended 31 December 2006, the Group had focussed its efforts on conserving cash, minimising spending on research and development ahead of the Company's IPO and listing which was finalised on 25 May 2007. The Group's result for the period ended 31 December 2007 is reflective of the Company's successful IPO with the resultant initiation of its Phase 3 clinical trial program for its lead compound Q8003IR and the continued progression of its other clinical pipeline candidates and preclinical stage drugs in line with forecast development plans. The loss is aligned with prior expectations.

Dividends
It is not proposed to pay a dividend

Other Appendix 4D information

	31 December 2007	31 December 2006
Net tangible assets per ordinary share	**$0.54**	($2.60)

QRxPharma Limited

ABN 16 102 254 151

Interim report for the half-year ended 31 December 2007

QRxPharma Limited ABN 16 102 254 151
Interim report – 31 December 2007

Contents

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

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

QRxPharma Limited
Level 1
194 Miller Street
North Sydney
NSW 2060

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by QRxPharma Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

The half-year report was authorised for issue by the directors on 23 February 2008. The company has the power to amend and reissue the financial report.

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

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 half year ended 31 December 2007.

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

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

Review of operations
The consolidated entity has made a loss from ordinary activities after income tax of $6.7 million (2006: $2.7 million) for the half-year.

	Half-year 31 Dec 2007 $'000	Half-year 31 Dec 2006 $'000
Interest Income	**1,298**	4
Research and development expenditure	**(4,068)**	(232)
Finance costs	**-**	(2,081)
General and administration	**(1,125)**	(264)
Employee salary benefits	**(1,348)**	(90)
Depreciation and amortisation	**(421)**	(7)
Fair value losses on derivative financial instrument	**(768)**	-
Net foreign exchange loss	**(417)**	(3)
Income tax benefit	**125**	-
Loss for the half-year	**(6,724)**	(2,673)

	2007 Cents	2006 Cents
Basic and diluted loss per share	**(9.0)**	(35.2)

The consolidated financial statements incorporate the assets and liabilities of QRxPharma Limited and its 100% controlled subsidiaries, QRxPharma Inc, Lynx Pty Limited and Haempatch Pty Limited as at 31 December 2007 and the results of QRxPharma Limited and its subsidiaries for the half-year ended 31 December 2007.

During the previous half-year period ended 31 December 2006, the Group had focussed its efforts on conserving cash and minimising spending on research and development ahead of the Company's IPO and listing which was finalised on 25 May 2007. The Group's expenditure for the period ended 31 December 2007 is reflective of the Company's successful IPO with the resultant initiation of its Phase 3 clinical trial program for its lead compound Q8003IR and the continued progression of its other clinical pipeline candidates and preclinical stage drugs in line with forecast development plans.

Q8003IR is a patent-protected, immediate release combination of morphine and oxycodone that is being developed by the Company for the treatment of moderate to severe, acute pain. The Company commenced two studies during the half-year

Review of Operations (continued)

as part of the Phase 3 development programme. The first is a double-blind, placebo controlled study designed to compare the efficacy and safety of four different dosage strengths of Q8003IR vs. placebo in a post-surgery, acute pain setting. The study is being conducted at 8 US clinical research sites and is targeted to enrol 250 patients experiencing moderate to severe pain following a scheduled surgical procedure (bunionectomy). The second is a placebo controlled, double blind safety extension trial designed to collect longer-term use patient safety data in support of the Company's submission of a New Drug Application (NDA) to the US Food and Drug Administration (FDA) for the use of Q8003IR in the management of moderate to severe pain.

With respect to other clinical pipeline candidates and preclinical drugs, the Group through this half-year has:

- Commenced formulation work to initiate and complete Phase 1 studies in 2008 of Q8011CR, a dual opioid designed to provide 12 hours of pain relief in patients with moderate to severe pain.
- Commenced lead molecule selection activities on T9001, a torsin based therapeutic targeting dystonia and Parkinson's disease. This drug candidate is being co-developed through a sponsored research programme with the University of Alabama. Grant applications have also been filed for T9001 to augment development expenditure.
- An Australian Government Research Grant of $0.8 million was awarded to the University of Queensland to complete further work on its snake venom proteins development program that is being conducted in collaboration with the Company. This snake venom development program includes a series of potential clinical applications in the field of blood homeostasis.

To support these development programmes, the Group has established a presence in New Jersey, United States of America (USA). During the half-year the Group has been active in recruitment of specialised staff; competent individuals who are veterans of clinical and commercial development in the pharmaceutical industry and complement the existing talent pool of Company management. Key appointments of Vice President, New Product Planning; Vice President, Manufacturing Operations; Vice President, Clinical Research and Senior Director, Regulatory Affairs have been completed.

In addition, the Company strengthened its Scientific Advisory Board (SAB) with the appointments of Dr. Lester Crawford, former Commissioner of the US Food and Drug Administration (FDA), and Dr. Gavril Pasternak, a world authority on opioid drugs.

Cash utilisation for the half-year ended 31 December 2007 is in accordance with the Prospectus dated 27 April 2007. The Company retains A$40.7 million in cash reserves and short-term investments with the Company maintaining its confidence on sufficient funding being available to fully fund the Phase 3 clinical trials and New Drug Application (NDA) submission for Q8003IR in the US market.

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 3.

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

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

Peter C Farrell

Director

Sydney
Date: 26 February 2008

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Auditor's Independence Declaration

As lead auditor for the review of QRxPharma Limited for the half year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been:

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

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

Manoj Santiago
Partner
PricewaterhouseCoopers

Sydney
22 February 2008

QRxPharma Limited
Consolidated income statement
For the half-year ended 31 December 2007

	Note	Half - year 2007 $'000	2006 $'000
Revenue from continuing operations		**1,298**	4
Research and development		**(4,068)**	(232)
Employee benefits expense			
- employee salary benefits		**(1,116)**	(87)
- defined contribution superannuation		**(11)**	-
- share based payments		**(221)**	(3)
Depreciation and amortisation		**(421)**	(7)
Net foreign exchange loss		**(417)**	(3)
Fair value losses on derivative financial instrument	3	**(768)**	-
Finance costs		**-**	(2,081)
General and administration		**(1,125)**	(264)
Loss before income tax		**(6,849)**	(2,673)
Income tax benefit		**125**	-
Loss from continuing operations		**(6,724)**	(2,673)
Loss for the half-year		**(6,724)**	(2,673)
Earnings per share for loss attributable to the ordinary equity holders of the company:		**Cents**	Cents
Basic loss per share		**(9.0)**	(35.2)
Diluted loss per share		**(9.0)**	(35.2)

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

QRxPharma Limited
Consolidated balance sheet
As at 31 December 2007

	Note	31 December 2007 $'000	30 June 2007 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**39,882**	35,690
Trade and other receivables		**223**	136
Other financial assets at fair value through profit or loss	3	**-**	374
Held-to-maturity investments	4	**822**	10,491
Other current assets	5	**427**	118
Total current assets		**41,354**	46,809
Non-current assets			
Other financial assets at fair value through profit or loss	3	**-**	548
Property, plant and equipment		**49**	25
Intangible assets		**15,017**	15,430
Total non-current assets		**15,066**	16,003
Total assets		**56,420**	62,812
LIABILITIES			
Current Liabilities			
Trade and other payables		**806**	678
Other financial liabilities at fair value through profit or loss	3	**-**	154
Total current liabilities		**806**	832
Total liabilities		**806**	832
Net assets		**55,614**	61,980
EQUITY			
Contributed equity		**79,821**	79,933
Reserves		**856**	386
Accumulated losses		**(25,063)**	(18,339)
Total equity		**55,614**	61,980

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

QRxPharma Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2007

	Half-year	
	2007	2006
	$'000	$'000
Total equity / (deficiency in capital) at the beginning of the financial year	**61,980**	(17,102)
Loss for the half-year	**(6,724)**	(2,673)
Transaction with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs	**(112)**	1
Employee shares and share options	**470**	3
	358	4
Total equity / (deficiency in capital) at the end of the financial period	**55,614**	(19,771)

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

	Note	Half-year 2007 $'000	Half-year 2006 $'000
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		**(6,140)**	(607)
Payments for patents		**(136)**	(57)
Interest received		**802**	4
Income tax R&D receipt		**125**	-
Net cash outflow from operating activities		**(5,349)**	(660)
Cash flows from investing activities			
Payments for property, plant and equipment		**(31)**	-
Interest received		**330**	-
Proceeds for held-to-maturity investments	4	**9,691**	-
Net cash outflow from investing activities		**9,990**	-
Cash flows from financing activities			
Proceeds from issues of shares		**-**	1
Payments made in relation to IPO		**(31)**	-
Proceeds from borrowings		**-**	525
Net cash inflow from financing activities		**(31)**	526
Net increase (decrease) in cash and cash equivalents		**4,610**	(134)
Cash and cash equivalents at the beginning of the Financial year		**35,690**	248
Effects of exchange rate changes on cash and cash equivalents		**(418)**	-
Cash and cash equivalents at end of half-year		**39,882**	114

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

1 Basis of preparation of half-year report

This general purpose financial report for the interim half-year reporting period ended 31 December 2007 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by QRxPharma Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

2 Segment information

The Group operates predominantly in one industry. The principal activities of the Group are the research and development of biopharmaceutical products for commercial sale.

The Group operates predominantly in one geographical area, being Australia.

3 Fair value losses on derivative financial instrument

During the financial year ended 30 June 2007, the Group had entered into a series of foreign exchange put option contracts at an exchange rate between Australian dollars and US dollars of AUD$1.00 to US$0.8181 to protect against adverse foreign exchange movements between AUD and USD. The hedge was to cover anticipated expenditure of at least $31 million over 2 years to fulfil research and development expenditure associated with clinical trials to be conducted in the United States of America (US). The Prospectus issued by the Company on 27 April, 2007 assumed an exchange rate between Australian dollars and US dollars of AUD$1.00 to US$0.78. During the half-year the Group converted AUD$20 million to USD at an average rate of US$0.9027, taking advantage of the more favourable rates above the hedge cover.

In addition, at 30 June 2007 the Group held a series of smart forward exchange contracts that have matured during the half-year. These smart forward exchange contracts were fair valued as a liability at that date at $154,024.

Accordingly derivate financial instruments of a net carrying value of $768,214 at 30 June, 2007 have been fair valued at 31 December, 2007 at $nil.

4 Held- to- maturity investments

As at 30 June 2007, the Group held a Bank Accepted Commercial Bill of $9.7 million and a security deposit of $800,000 having maturity dates of greater that 3 months from the original date of investment.

During the half-year, the Bank Accepted Commercial Bill of $9.7 million was matured early, with the proceeds converted into US dollars and reinvested in Term Deposits having maturities of less than 3 months from original investment date. Accordingly these Term Deposits have been classified and disclosed as cash and cash equivalents in accordance with AASB 107 "Cash Flow Statements".

5 Other current assets

	Half-year	
	2007	2006
	$'000	$'000
Prepayments	427	118

6 Contingent Liabilities

There have been no changes in the company's contingent liabilities reported as at 30 June 2007.

7 Events occurring after the balance sheet date

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

In the directors' opinion:

(a) the financial statements and notes set out on pages 4 to 9 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that QRxPharma Limited will be able to pay its debts as and when they become due and payable.

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

Peter C Farrell
Director

Sydney
Date: 26 February 2008

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INDEPENDENT AUDITOR'S REVIEW REPORT

to the members of QRxPharma Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of QRxPharma Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the QRxPharma Limited Group (the consolidated entity). The consolidated entity comprises both QRxPharma Limited (the company) and the entities it controlled during that half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of QRxPharma Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website http:/www.pwc.com/au/financialstatementaudit

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While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of QRxPharma Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

PricewaterhouseCoopers

Manoj Santiago
Partner

Sydney
26 February 2008