

QrxPharma Pty Limited

ACN 102 254 151

Financial report for the 6 month period ended 31 December 2006

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Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of QrxPharma Pty Limited (referred to hereafter as the company) and the entities it controlled at the end of, or during, the 6 month period ended 31 December 2006.

Directors

The following persons were directors of QrxPharma Pty Limited during the reporting period and up to the date of this report:

M A Quinn
G W Pace
M S Hirshorn
G Savage
D A Henderson
D Stack

Principal activities

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

Dividends - QrxPharma Pty Limited

No dividends were paid or declared since the start of the financial year.

Review of operations

The consolidated entity has made a loss from ordinary activities after income tax for the 6 months ended 31 December 2006 of \$2,672,983 (12 months ended 30 June 2006: loss of \$3,510,503).

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under the review.

Matters subsequent to the end of the financial year

Management are preparing to list on the Australian Stock Exchange in April 2007. The accounts for the 6 months ended 31 December 2006 will be used as historical information in proforma accounts.

No other matter or circumstance has arisen since 31 December 2006 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

Likely developments and expected results of operations

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

Environmental regulation

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

Share options granted to directors

No options over unissued ordinary shares of QrxPharma Pty Limited were granted during or since the end of the reporting period to any of the directors of the company and the Group.

Shares under option

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

Date options granted	Expiry date	Issue price of shares	Number under option
19 December 2002	19 December 2012	\$0.30	40,000
24 February 2004	24 February 2013	\$0.15	3,920
24 February 2004	24 February 2014	\$0.30	10,000
24 February 2004	24 February 2014	\$0.15	6,875
25 February 2004	24 February 2014	\$0.15	1,960
16 March 2004	16 March 2014	\$0.15	10,000
19 May 2004	19 May 2014	\$0.15	25,000
24 June 2004	24 June 2014	\$0.15	20,000
13 July 2004	13 July 2014	\$0.15	50,000
14 July 2004	14 July 2014	\$0.15	40,000
17 August 2004	17 August 2014	\$0.15	20,000
19 October 2004	19 October 2014	\$0.15	784,248
19 February 2005	19 February 2015	\$0.15	150,000
18 May 2005	18 May 2015	\$0.15	240,000
21 September 2005	21 September 2015	\$0.15	110,000
			1,512,003

Shares issued on the exercise of options

The following ordinary shares of QrxPharma Pty Limited were issued during the year ended 31 December 2006 on the exercise of options granted under the QrxPharma 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
24 February 2004	\$0.15	6,080
25 February 2004	\$0.15	3,040
		9,120

Insurance of officers

During the financial year, the company made, in respect of the directors and officers of the company an agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings. Insurance premiums have been paid in respect of Directors' and Officers Liability insuring against a liability arising in the United States, incurred as an officer for the costs or expenses to defend legal proceedings. The terms of that policy prohibits disclosure of the premiums paid and the extent of risks insured.

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*.

Auditor

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

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



M A Quinn
Director

4/04/07

Sydney
Date:

Financial report - 6 month period ended 31 December 2006

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

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

QrxPharma Pty Limited
Suite 401, 35 Lime St
Sydney NSW 2000.

A description of the nature of the Group's operations and its principal activities is included in the directors' report on pages 1-3, which is not part of this financial report.

QrxPharma Pty Limited
Consolidated income statement
For the 6 month period ended 31 December 2006

	Notes	Consolidated		Parent	
		6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$
Revenue from continuing operations	5	4,082	18,362	4,082	18,362
Research and development	6	(232,269)	(1,060,320)	(232,269)	(1,060,320)
Marketing		-	(178,837)	-	(178,837)
General and administration		(364,294)	(595,059)	(364,294)	(595,059)
Finance costs	6	(2,080,502)	(1,694,649)	(2,080,502)	(1,694,649)
Loss before income tax		(2,672,983)	(3,510,503)	(2,672,983)	(3,510,503)
Income tax expense	7	-	-	-	-
Loss for the year		<u>(2,672,983)</u>	<u>(3,510,503)</u>	<u>(2,672,983)</u>	<u>(3,510,503)</u>

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

QrxPharma Pty Limited
Consolidated balance sheet
As at 31 December 2006

	Notes	Consolidated		Parent	
		31 December 2006 \$	30 June 2006 \$	31 December 2006 \$	30 June 2006 \$
ASSETS					
Current assets					
Cash and cash equivalents	8	<u>114,426</u>	<u>248,711</u>	<u>114,426</u>	<u>248,711</u>
Total current assets		<u>114,426</u>	<u>248,711</u>	<u>114,426</u>	<u>248,711</u>
Non-current assets					
Other financial assets	9	-	-	-	-
Property, plant and equipment	10	<u>11,756</u>	<u>18,342</u>	<u>11,756</u>	<u>18,342</u>
Total non-current assets		<u>11,756</u>	<u>18,342</u>	<u>11,756</u>	<u>18,342</u>
Total assets		<u>126,182</u>	<u>267,053</u>	<u>126,182</u>	<u>267,053</u>
LIABILITIES					
Current liabilities					
Trade and other payables	11	<u>383,980</u>	<u>599,488</u>	<u>411,680</u>	<u>627,188</u>
Borrowings	12	<u>5,263,091</u>	<u>3,195,563</u>	<u>5,263,091</u>	<u>3,195,563</u>
Total current liabilities		<u>5,647,071</u>	<u>3,795,051</u>	<u>5,674,771</u>	<u>3,822,751</u>
Non-current liabilities					
Borrowings	13	<u>14,250,230</u>	<u>13,574,115</u>	<u>14,250,230</u>	<u>13,574,115</u>
Total non-current liabilities		<u>14,250,230</u>	<u>13,574,115</u>	<u>14,250,230</u>	<u>13,574,115</u>
Total liabilities		<u>19,897,301</u>	<u>17,369,166</u>	<u>19,925,001</u>	<u>17,396,866</u>
Net liabilities		<u>(19,771,119)</u>	<u>(17,102,113)</u>	<u>(19,798,819)</u>	<u>(17,129,813)</u>
EQUITY					
Contributed equity	14	<u>671,336</u>	<u>669,968</u>	<u>671,336</u>	<u>669,968</u>
Reserves	15(a)	<u>164,490</u>	<u>161,881</u>	<u>164,490</u>	<u>161,881</u>
Accumulated losses	15(b)	<u>(20,606,945)</u>	<u>(17,933,962)</u>	<u>(20,634,645)</u>	<u>(17,961,662)</u>
		<u>(19,771,119)</u>	<u>(17,102,113)</u>	<u>(19,798,819)</u>	<u>(17,129,813)</u>
Total deficiency in capital		<u>(19,771,119)</u>	<u>(17,102,113)</u>	<u>(19,798,819)</u>	<u>(17,129,813)</u>

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

QrxPharma Pty Limited
Consolidated statement of changes in equity
For the 6 month period ended 31 December 2006

	Notes	Consolidated		Parent	
		6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$
Total equity / (deficiency in capital) at the beginning of the financial year		<u>(17,102,113)</u>	<u>(3,771,966)</u>	<u>(17,129,813)</u>	<u>(3,799,666)</u>
Adjustment on adoption of AASB 132 and AASB 139 to:					
Preference shares	13	<u>-</u>	<u>(9,898,217)</u>	<u>-</u>	<u>(9,898,217)</u>
Restated equity / (deficiency in capital) at the beginning of the financial year		<u>(17,102,113)</u>	<u>(13,670,183)</u>	<u>(17,129,813)</u>	<u>(13,697,883)</u>
Loss for the year		<u>(2,672,983)</u>	<u>(3,510,503)</u>	<u>(2,672,983)</u>	<u>(3,510,503)</u>
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	14	<u>1,368</u>	<u>40,533</u>	<u>1,368</u>	<u>40,533</u>
Employee share options	15	<u>2,609</u>	<u>38,040</u>	<u>2,609</u>	<u>38,040</u>
		<u>3,977</u>	<u>78,573</u>	<u>3,977</u>	<u>78,573</u>
Total deficiency in capital at the end of the financial year		<u>(19,771,119)</u>	<u>(17,102,113)</u>	<u>(19,798,819)</u>	<u>(17,129,813)</u>

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

QrxPharma Pty Limited
Consolidated cash flow statement
For the 6 month period ended 31 December 2006

	Notes	Consolidated		Parent	
		6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$
Cash flows from operating activities					
Payments to suppliers and employees (inclusive of goods and services tax)		<u>(664,665)</u>	<u>(1,901,124)</u>	<u>(664,665)</u>	<u>(1,901,124)</u>
Interest received		4,082	18,362	4,082	18,362
R&D grant received		-	43,060	-	43,060
Net cash outflow from operating activities	20	<u>(660,583)</u>	<u>(1,839,702)</u>	<u>(660,583)</u>	<u>(1,839,702)</u>
Cash flows from financing activities					
Proceeds from borrowings		524,930	635,747	524,930	635,747
Proceeds from issues of shares		<u>1,368</u>	<u>40,533</u>	<u>1,368</u>	<u>40,533</u>
Net cash inflow from financing activities		<u>526,298</u>	<u>676,280</u>	<u>526,298</u>	<u>676,280</u>
Net increase (decrease) in cash and cash equivalents					
Cash and cash equivalents at the beginning of the half-year		<u>248,711</u>	<u>1,412,133</u>	<u>248,711</u>	<u>1,412,133</u>
Cash and cash equivalents at end of the half-year	8	<u>114,426</u>	<u>248,711</u>	<u>114,426</u>	<u>248,711</u>

The above consolidated cash flow statement 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 financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for QrxPharma Pty Limited as an individual entity and the consolidated entity consisting of QrxPharma Pty Limited and its subsidiaries.

(a) Going concern

The Group has continued to experience operating losses of \$2,672,983 and operating cash outflows of \$660,583 during the 6 month period ended 31 December 2006 as the Group continues to focus on the achievement of key milestones set out in the funding of its R&D program and operating plan. As of the balance date, the Group had a deficiency in capital of \$19,771,119 and cash balances of \$114,426. The continuing viability of the company and its controlled entities and their ability to continue as a going concern and meet their debts and commitments as they fall due is dependent upon:

- (i) the Group being successful in negotiating and obtaining additional funding, including securing equity financing and government research and development grants based on continued achievement of key milestones in the R&D program; and
- (ii) the Group successfully implementing its business strategy and operating plan.

The Group's short operating history and reliance on future funding and successfully executing its business strategy result in there being significant uncertainty whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

As at the date of this report, however, the Group has received a draft underwriting agreement and is proceeding towards a listing on the Australian Stock Exchange. Up to \$50 million plus oversubscription is sought through this round of funding. Hence the directors believe that the Group will be successful in the above matters, and accordingly, have prepared the financial report on a going concern basis. The directors regularly monitor the Group's cash position and on an on-going basis consider a number of strategic and operational plans and initiatives to ensure that adequate funding continues to be available for the Group to meet its business objectives.

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 31 December 2006. No adjustments have been made to the financial report relating to recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

(b) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Interpretations.

Compliance with IFRSs

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of QrxPharma Pty Limited comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure*.

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, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

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

1 Summary of significant accounting policies (continued)

(c) Principles of consolidation

(i) *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of QrxPharma Pty Limited ("company" or "parent entity") as at 31 December 2006 and the results of all subsidiaries for the half-year then ended. QrxPharma Pty Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

(d) Foreign currency translation

(i) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit and loss for the year.

(e) Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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 Pty Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003.

The head entity, QrxPharma Pty Limited, and the controlled entities in the tax consolidated group continue to 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.

1 Summary of significant accounting policies (continued)

(f) Business combinations

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

(g) 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.

(h) Grant income

Grant income is recognised during the year in which the income is received and is disclosed in the results for the period against related R&D expenditure incurred last year.

(i) 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.

(j) Property, plant and equipment

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

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

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

(k) 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.

(l) Borrowings

Non-redeemable preference shares are classified as liabilities. The accrued liabilities on preference shares are recognised in the income statement as interest expense.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Convertible notes and accrued interest are recognised as a liability. The liability is included in borrowings until the conversion or maturity of the notes.

1 Summary of significant accounting policies (continued)

(m) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include interest paid or payable on convertible notes.

(n) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick 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 expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above.

(iii) Share-based payments

Share-based compensation benefits are provided to employees via the QrxPharma Employee Share Option Plan and an employee share scheme. Information relating to these schemes is set out in note 21.

Shares and options granted after 7 November 2002 and vested after 1 January 2005

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

The fair value at grant date is independently determined using a 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.

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

Under the employee share scheme, shares issued to employees for no cash consideration vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.

(o) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) *AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]* AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. AASB 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces AASB 130 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements in IAS 32 Financial Instruments: Disclosure and Presentation. It is applicable to all reporting entities. The amendment to AASB 101 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of AASB 7 and the amendment to AASB 101 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of AASB 101. The Group will apply the standards from annual reporting periods beginning 1 June 2007.

1 Summary of significant accounting policies (continued)

(ii) *UIG 9 Reassessment of Embedded Derivatives*

UIG 9 is effective for annual reporting periods beginning on or after 1 June 2006. It requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, UIG 9 is not relevant to the Group's operations.

(iii) *Revised AASB 101 Presentation of Financial Statements*

A revised AASB 101 was issued in October 2006 and is applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standard early. Application of the revised standard will not have any impact on the Group's financial statements.

2 Financial risk management

(a) Credit risk exposures

The credit risk on financial assets of the Group which have been recognised on the balance sheet, other than investment in shares, is generally the carrying amount, net of any provisions for doubtful debts.

(b) Interest rate risk exposures

The Group's exposure to interest rate risk predominately arises from assets and liabilities bearing variable interest rates as the company intends to hold fixed rate assets and liabilities to maturity.

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.

Research and development expenditure

The Group has expensed all 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 probable. It was considered appropriate to expense the research and development costs as they did not meet the criteria to be capitalised under AASB 138.

4 Segment information

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

5 Revenue

	Consolidated		Parent	
	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$
From continuing operations				
Interest	<u>4,082</u>	<u>18,362</u>	<u>4,082</u>	<u>18,362</u>
Revenue from ordinary activities	<u>4,082</u>	<u>18,362</u>	<u>4,082</u>	<u>18,362</u>

6 Expenses

	Consolidated		Parent	
	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$
Loss before income tax includes the following specific expenses:				
<i>Depreciation</i>				
Plant and equipment	6,586	29,988	6,586	29,988
Net foreign exchange loss	3,252	7,289	3,252	7,289

6 Expenses (continued)

	Consolidated		Parent	
	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$
<i>Finance costs</i>				
Interest payable on convertible notes	1,404,387	262,113	1,404,387	262,113
Interest payable on preference shares	676,115	1,431,007	676,115	1,431,007
Other finance expense	-	1,529	-	1,529
	<u>2,080,502</u>	<u>1,694,649</u>	<u>2,080,502</u>	<u>1,694,649</u>
<i>Employee benefit expense</i>	89,800	351,312	89,800	351,312
<i>Research and development</i>				
Research and development expensed	232,269	1,103,380	232,269	1,103,380
Research and development grant	-	(43,060)	-	(43,060)
	<u>232,269</u>	<u>1,060,320</u>	<u>232,269</u>	<u>1,060,320</u>

7 Income tax expense

	Consolidated		Parent	
	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$
(a) Numerical reconciliation of income tax expense to prima facie tax payable				
Loss from continuing operations before income tax expense	<u>(2,672,983)</u>	<u>(3,510,503)</u>	<u>(2,672,983)</u>	<u>(3,510,503)</u>
Tax at the Australian tax rate of 30% (2005 - 30%)	(801,895)	(1,053,151)	(801,895)	(1,053,151)
Tax effect of amounts which are not deductible in calculating taxable income:				
Share-based payments	783	11,412	783	11,412
Interest payable on preference shares	<u>202,834</u>	<u>429,302</u>	<u>202,834</u>	<u>429,302</u>
	<u>(598,278)</u>	<u>(612,437)</u>	<u>(598,278)</u>	<u>(612,437)</u>
Benefit of tax losses not recognised	<u>598,278</u>	<u>612,437</u>	<u>598,278</u>	<u>612,437</u>
Total income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

7 Income tax expense (continued)

Consolidated		Parent	
31 December 2006	30 June 2006	31 December 2006	30 June 2006
\$	\$	\$	\$

(b) Tax losses

Unused tax losses for which no deferred tax asset has been recognised

Potential tax benefit @ 30%

17,472,623	15,478,364	17,472,623	15,478,364
5,241,787	4,643,509	5,241,787	4,643,509

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 Pty 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(e).

8 Current assets - Cash and cash equivalents

Consolidated		Parent	
31 December 2006	30 June 2006	31 December 2006	30 June 2006
\$	\$	\$	\$

Cash at bank and in hand	114,426	248,711	114,426	248,711
--------------------------	---------	---------	---------	---------

The weighted average interest rate was 4.53% (June 2006: 4.25%).

9 Non-current assets - Other financial assets

Consolidated		Parent	
31 December 2006	30 June 2006	31 December 2006	30 June 2006
\$	\$	\$	\$

Shares in subsidiaries (note 19)	-	-	500,750	500,750
Less provision for write down to recoverable amount	-	-	(500,750)	(500,750)
	-	-	-	-

10 Non-current assets - Property, plant and equipment

Consolidated	Plant and equipment \$
 At 1 July 2005	
Cost	109,277
Accumulated depreciation	<u>(60,947)</u>
Net book amount	<u>48,330</u>
 12 months ended 30 June 2006	
Opening net book amount	48,330
Depreciation charge	<u>(29,988)</u>
Closing net book amount	<u>18,342</u>
 At 30 June 2006	
Cost	109,277
Accumulated depreciation	<u>(90,935)</u>
Net book amount	<u>18,342</u>
 6 months ended 31 December 2006	
Opening net book amount	18,342
Depreciation charge	<u>(6,586)</u>
Closing net book amount	<u>11,756</u>
 At 31 December 2006	
Cost	109,277
Accumulated depreciation	<u>(97,521)</u>
Net book amount	<u>11,756</u>

10 Non-current assets - Property, plant and equipment (continued)

Parent	Plant and equipment \$
At 1 July 2005	
Cost	109,277
Accumulated depreciation	<u>(60,947)</u>
Net book amount	<u>48,330</u>
12 months ended 30 June 2006	
Opening net book amount	48,330
Depreciation charge	<u>(29,988)</u>
Closing net book amount	<u>18,342</u>
At 30 June 2006	
Cost	109,277
Accumulated depreciation	<u>(90,935)</u>
Net book amount	<u>18,342</u>
6 months ended 31 December 2006	
Opening net book amount	18,342
Depreciation charge	<u>(6,586)</u>
Closing net book amount	<u>11,756</u>
At 31 December 2006	
Cost	109,277
Accumulated depreciation	<u>(97,521)</u>
Net book amount	<u>11,756</u>

11 Current liabilities - Trade and other payables

	Consolidated		Parent	
	31 December 2006	30 June 2006	31 December 2006	30 June 2006
	\$	\$	\$	\$
Trade payables	194,440	398,727	194,440	398,727
Amounts due to associates	-	-	27,700	27,700
Accrued expenses	181,968	193,887	181,968	193,887
Other creditors	<u>7,572</u>	<u>6,874</u>	<u>7,572</u>	<u>6,874</u>
	<u>383,980</u>	<u>599,488</u>	<u>411,680</u>	<u>627,188</u>

12 Current liabilities - Borrowings

	Consolidated		Parent	
	31 December 2006 \$	30 June 2006 \$	31 December 2006 \$	30 June 2006 \$
Secured				
Convertible notes Series A	2,862,978	2,750,333	2,862,978	2,750,333
Convertible notes Series B	2,000,005	275,072	2,000,005	275,072
Accrued interest on convertible notes	186,386	94,647	186,386	94,647
Warrant liability Notes A	57,757	75,511	57,757	75,511
Warrant liability Notes B	155,965	-	155,965	-
Total secured current borrowings	<u>5,263,091</u>	<u>3,195,563</u>	<u>5,263,091</u>	<u>3,195,563</u>

Convertible notes - Series A

The parent entity issued \$2,500,000 by way of convertible notes in three tranches. The notes are convertible into Series B preference shares at the option of the holder, or mandatorily on occurrence of qualified financing, being the raising of greater than \$15 million of funds. The conversion price of each convertible note is to be determined by the issue price of the Series B preference shares.

The notes mature on 31 December 2006 and have been rolled-over to be payable by 30 April 2007. The roll-over has been approved by the note holders.

Interest accrues daily at a rate of 10% per annum on the Principal Amount. Any unpaid interest will be capitalised annually into the underlying note balance. The unpaid interest will be convertible into Series B preference shares.

Convertible notes - Series B

The parent entity issued \$1,745,000 by way of convertible notes in four tranches, the first being called on 30 June 2006. The notes are convertible into Series A preference shares at the option of the holder at a conversion price of \$0.50. In the event a Qualified Financing, being the raising of greater than \$5,000,000 funds occurs the notes are convertible into Qualified Financing shares, the conversion price at 80% of the Qualified Financing Issue price and in the event a Qualified Merger occurs, involving at least \$20,000,000 of funding by way of equity or securities in the Company, the notes are converted into ordinary shares at \$0.50.

The notes were repayable on 15 December 2006 but have been rolled over to 30 April 2007, consistent with the convertible note series A.

Interest accrues daily at a rate of 20% per annum on the Principal Amount (or that proportion of the Principal Amount that has been advanced). Any unpaid interest is capitalised monthly into the underlying note balance.

The warrants attached to the convertible notes has been recognised at fair value through profit or loss.

13 Non-current liabilities - Borrowings

	Consolidated		Parent	
	31 December 2006	30 June 2006	31 December 2006	30 June 2006
	\$	\$	\$	\$
Unsecured				
Preference shares Series A	14,109,659	12,782,281	14,109,659	12,782,281
Interest payable on preference shares	<u>140,571</u>	<u>791,834</u>	<u>140,571</u>	<u>791,834</u>
Total unsecured non-current borrowings	<u>14,250,230</u>	<u>13,574,115</u>	<u>14,250,230</u>	<u>13,574,115</u>

The balance represents 10,249,142 fully paid cumulative convertible preference shares less transaction costs. The shares are convertible at \$1 per share or a price in accordance with the terms included in the Shareholders Deed dated 6 December 2002.

Convertible preference shares entitle the holder to have priority over ordinary shareholders upon liquidation of the company or in the event of an initial public offering, and each preferred shareholder maintains the right to receive cumulative dividends if the company declares and pays discretionary dividends in respect of ordinary shares. Each Series A Preferred Share carries a right to receive, out of funds legally available for the payment of dividends, cumulative dividends at an annual rate equal to 10% of the Issue Price, which will accrue on a daily basis from the date of issuance of such share, whether or not declared. Accrued and unpaid dividends will compound on an annual basis calculated on each anniversary of the date of issue. Upon liquidation of the company, preferred shareholders are entitled to a liquidation preference equal to 10% of the issue price per annum plus all accrued but unpaid dividends.

Each Series A Preferred Share carries the right to receive any document or information an Ordinary Share carries the right to receive, and has the same right to attend and speak at the general meeting of the company and the same number of votes as if each preferred share were converted into Ordinary Shares, as per terms included in the shareholder deed dated 6 December 2002.

There were no movements in preference shares during periods ended 31 December 2006 and 30 June 2006.

14 Contributed equity

	Parent		Parent	
	31 December 2006	30 June 2006	31 December 2006	30 June 2006
	Shares	Shares	\$	\$
(a) Share capital				
Ordinary shares - fully paid	7,597,841	7,588,721	671,336	669,968

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$
1 July 2005	Opening balance	7,318,500		629,435
6 September 2005	Exercise of 2003 options	5,000	\$0.15	750
10 May 2006	Exercise of 2004 options	8,125	\$0.15	1,219
18 June 2006	Exercise of 2003 options	50,000	\$0.15	7,500
18 June 2006	Exercise of 2004 options	<u>207,096</u>	\$0.15	<u>31,064</u>
30 June 2006	Balance	<u>7,588,721</u>		<u>669,968</u>
1 July 2006	Opening balance	7,588,721		669,968
11 August 2006	Exercise of 2004 options	<u>9,120</u>	\$0.15	<u>1,368</u>
31 December 2006	Balance	<u>7,597,841</u>		<u>671,336</u>

(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 (subject to any agreement between the company and a member affecting the voting rights attaching to any share).

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, subsequent to the satisfaction of preferred shareholder rights as included in the shareholder deed dated 6 December 2002. (refer to note 13).

(d) Options

Each option granted to founding shareholders on 19 September 2002 was exercisable immediately on issue. Upon exercising, each option is convertible into one ordinary share and entitles the holder to the same ordinary share rights as noted above.

Information relating to the QrxPharma Employee Option Plan, including details of options issued, exercised and lapsed during the period and options outstanding at the end of the period are set out in note 21.

15 Reserves and accumulated losses

	Consolidated		Parent	
	31 December 2006	30 June 2006	31 December 2006	30 June 2006
	\$	\$	\$	\$
(a) Reserves				
Exercised share options reserve	28,075	27,426	28,075	27,426
Share-based payments reserve	<u>136,415</u>	<u>134,455</u>	<u>136,415</u>	<u>134,455</u>
	<u>164,490</u>	<u>161,881</u>	<u>164,490</u>	<u>161,881</u>

	Consolidated		Parent	
	31 December 2006	30 June 2006	31 December 2006	30 June 2006
	\$	\$	\$	\$
Movements:				
<i>Exercised share options reserve</i>				
Opening balance	27,426	4,131	27,426	4,131
Transfer from share-based payments reserve (options exercised)	<u>649</u>	<u>23,295</u>	<u>649</u>	<u>23,295</u>
Closing balance	<u>28,075</u>	<u>27,426</u>	<u>28,075</u>	<u>27,426</u>
<i>Share-based payments reserve</i>				
Opening balance	134,455	119,710	134,455	119,710
Option expense	2,609	38,040	2,609	38,040
Transfer to share capital (options exercised)	<u>(649)</u>	<u>(23,295)</u>	<u>(649)</u>	<u>(23,295)</u>
Closing balance	<u>136,415</u>	<u>134,455</u>	<u>136,415</u>	<u>134,455</u>

These reserves are not distributable.

(b) Accumulated losses

Movements in accumulated losses were as follows:

	Consolidated		Parent	
	31 December 2006	30 June 2006	31 December 2006	30 June 2006
	\$	\$	\$	\$
Opening accumulated losses	(17,933,962)	(14,423,459)	(17,961,662)	(14,451,159)
Loss for the year	<u>(2,672,983)</u>	<u>(3,510,503)</u>	<u>(2,672,983)</u>	<u>(3,510,503)</u>
Closing accumulated losses	<u>(20,606,945)</u>	<u>(17,933,962)</u>	<u>(20,634,645)</u>	<u>(17,961,662)</u>

16 Key management personnel disclosures

(a) Directors

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

M A Quinn
G W Pace
M S Hirshorn
G Savage
D A Henderson
D Stack
R Creswell (resigned 10 February 2006)

(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:

<i>Name</i>	<i>Position</i>
Nicholas Harvey	Chief Financial Officer
Felix de la Iglesia	Chief Technical Officer

(c) Key management personnel compensation

	Consolidated		Parent	
	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$
Short-term employee benefits	69,345	329,110	69,345	329,110
Post-employment benefits	-	-	-	-
Share-based payments	-	20,117	-	20,117
	<u>69,345</u>	<u>349,227</u>	<u>69,345</u>	<u>349,227</u>

17 Remuneration of auditors

	Consolidated		Parent	
	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$
<i>Audit services</i>				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	<u>8,000</u>	<u>15,000</u>	-	<u>15,000</u>
Total remuneration for assurance services	<u>8,000</u>	<u>15,000</u>	-	<u>15,000</u>

18 Related party transactions

(a) Directors

The names of persons who were directors of the company at any time during the financial year are set out in note 16.

(b) Subsidiaries

Interests in subsidiaries are set out in note 19.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 16.

(d) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent	
	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$
Expenses	267,625	362,539	267,625	362,539

During the year, the company directly engaged and contracted the services of certain shareholders in relation to the ongoing normal course of business operations. The total amount paid to shareholders for contracted services rendered during the 6 months ended 31 December 2006 amounted to \$267,625 (12 months ended 30 June 2006: \$362,532).

(e) Outstanding balances

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

	Consolidated		Parent	
	31 December 2006 \$	30 June 2006 \$	31 December 2006 \$	30 June 2006 \$
<i>Current payable</i>				
Subsidiaries	-	-	27,700	27,700
Balances in relation to related parties	51,494	135,960	51,494	135,960

19 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	
			2006 %	2006 %
Lynx Pty Limited	Australia	Ordinary	100	100
Haempatch	Australia	Ordinary / Preference	100	100

20 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated		Parent	
	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$	6 months ended 31 December 2006 \$	12 months ended 30 June 2006 \$
Loss for the year	(2,672,983)	(3,510,503)	(2,672,983)	(3,510,503)
Depreciation and amortisation	6,586	29,988	6,586	29,988
Non-cash employee benefits expense - share-based payments	2,609	38,040	2,609	38,040
Change in operating assets and liabilities				
Decrease in trade creditors and accruals	(215,507)	(188,639)	(215,507)	(188,639)
Increase in other operating liabilities	2,218,712	1,791,412	2,218,712	1,791,412
Net cash outflow from operating activities	<u>(660,583)</u>	<u>(1,839,702)</u>	<u>(660,583)</u>	<u>(1,839,702)</u>

21 Share-based payments

(a) QrxPharma Pty Limited Employee Share Option Plan (ESOP)

The ESOP was established to enable QrxPharma to grant options over shares to employees and consultants of the economic entity, subject to local regulations. Under the ESOP, the Board may invite applications for options from directors, full time or part time employees and consultants of QrxPharma having regard to the employee's position, services provided by the employees, recorded employment or service, potential contributions and any other matters which indicate the employee's merit. 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 QrxPharma. The Board reserves discretion to waive the latter provisions.

Options granted under the plan carry no dividend or voting rights. The vesting period for each option is 4 years, or as varied by the Board, 25% vesting after 12 months from the date of grant and the balance vesting monthly over the remaining 36 month period. 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 14.

Set out below are summaries of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Cancelled during the year Number	Balance at end of the year Number
Consolidated and parent - 6 months ended 31 December 2006							
19 December 2002	19 December 2012	\$0.30	40,000	-	-	-	40,000
19 February 2003	19 February 2006	\$0.15	40,000	-	-	-	40,000
1 December 2003	1 December 2006	\$0.15	20,000	-	-	-	20,000
24 February 2004	24 February 2013	\$0.15	10,000	-	(6,080)	-	3,920
24 February 2004	24 February 2014	\$0.30	10,000	-	-	-	10,000
24 February 2004	24 February 2014	\$0.15	6,875	-	-	-	6,875
25 February 2004	24 February 2014	\$0.15	5,000	-	(3,040)	-	1,960
16 March 2004	16 March 2014	\$0.15	10,000	-	-	-	10,000
19 May 2004	19 May 2014	\$0.15	25,000	-	-	-	25,000
24 June 2004	24 June 2014	\$0.15	20,000	-	-	-	20,000
13 July 2004	13 July 2014	\$0.15	50,000	-	-	-	50,000
14 July 2004	14 July 2014	\$0.15	40,000	-	-	-	40,000
17 August 2004	17 August 2014	\$0.15	20,000	-	-	-	20,000
19 October 2004	19 October 2014	\$0.15	784,248	-	-	-	784,248
19 February 2005	19 February 2015	\$0.15	150,000	-	-	-	150,000
18 May 2005	18 May 2015	\$0.15	240,000	-	-	-	240,000
21 September 2005	21 September 2015	\$0.15	110,000	-	-	-	110,000
Total			<u>1,581,123</u>	<u>-</u>	<u>(9,120)</u>	<u>-</u>	<u>1,572,003</u>

21 Share-based payments (continued)

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Cancelled during the year Number	Balance at end of the year Number
Consolidated and parent - 12 months ended 30 June 2006							
19 December 2002	19 December 2012	\$0.30	40,000	-	-	-	40,000
19 February 2003	19 February 2006	\$0.15	40,000	-	-	-	40,000
21 November 2003	21 November 2005	\$0.15	5,000	-	(5,000)	-	-
1 December 2003	1 December 2006	\$0.15	20,000	-	-	-	20,000
15 December 2003	15 December 2013	\$0.15	50,000	-	(50,000)	-	-
24 February 2004	24 February 2013	\$0.15	10,000	-	-	-	10,000
24 February 2004	24 February 2014	\$0.30	10,000	-	-	-	10,000
24 February 2004	24 February 2014	\$0.15	15,000	-	(8,125)	-	6,875
25 February 2004	24 February 2014	\$0.15	5,000	-	-	-	5,000
16 March 2004	16 March 2014	\$0.15	10,000	-	-	-	10,000
19 May 2004	19 May 2014	\$0.15	25,000	-	-	-	25,000
24 June 2004	24 June 2014	\$0.15	20,000	-	-	-	20,000
13 July 2004	13 July 2014	\$0.15	50,000	-	-	-	50,000
14 July 2004	14 July 2014	\$0.15	40,000	-	-	-	40,000
17 August 2004	17 August 2014	\$0.15	20,000	-	-	-	20,000
19 October 2004	19 October 2014	\$0.15	1,041,344	-	(207,096)	(50,000)	784,248
19 February 2005	19 February 2015	\$0.15	150,000	-	-	-	150,000
18 May 2005	18 May 2015	\$0.15	240,000	-	-	-	240,000
21 September 2005	21 September 2015	\$0.15	110,000	-	-	-	110,000
Total			<u>1,901,344</u>	<u>-</u>	<u>(270,221)</u>	<u>(50,000)</u>	<u>1,581,123</u>

The financial statements and notes set out on pages 4 to 28 have been approved and adopted.



M A Quinn
Director

4/04/07
Sydney
Date:



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Independent audit report to the members of QrxPharma Pty Limited

Audit opinion

In our opinion, the financial report of QrxPharma Pty Limited:

- gives a true and fair view of the financial position of QrxPharma Pty Limited and the QrxPharma Group (defined below) as at 31 December 2006, and of their performance for the 6 months ended on that date, and
- is presented in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia.

This opinion must be read in conjunction with the rest of our audit report.

Inherent uncertainty regarding continuation as a going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in note 1(a), there is significant uncertainty whether QrxPharma Pty Limited and QrxPharma Group will be able to continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for the QrxPharma Group (the consolidated entity), for the 6 months ended 31 December 2006. The consolidated entity comprises both QrxPharma Pty Limited (the company) and the entities it controlled during that period.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion on the financial report to the directors. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows.

**Independent audit report to the members of
QrxPharma Pty Limited (continued)**

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

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

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.



PricewaterhouseCoopers



Andrew Sneddon
Partner

Sydney
Date: 5/4/07