QRxPharma Limited

ABN 16 102 254 151

ASX Half year report – 31 December 2008

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 2008 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 31 December 2008
(Previous corresponding period: Half year ended 31 December 2007)

Results for announcement to the market

				A$'000
Revenue from ordinary activities	**Down**	**53%**	to	**609**
Net profit from ordinary activities after tax	**Up**	**109%**	to	**608**
Net profit for the half year attributable to members	**Up**	**109%**	to	**608**

Note:

1. Revenue from ordinary activities is represented by Interest Income earned on funds raised from the Company's IPO which was finalised on 25 May 2007. At 31 December 2008 the Company retains $29.9 million (30 June 2008 $29.7 million) in cash reserves and short term investments. At 31 December 2007 the Company had $40.7 million in cash reserves and short term investments.

2. The Group's result for the period ended 31 December 2008 is reflective of the continuation of the Company's Phase 3 clinical trial program for its lead compound MoxDuo™ IR (Q8003IR) and the continued progression of its other clinical pipeline candidates and preclinical stage drugs in line with forecast development plans. The result includes an unrealised exchange gain of $7.3 million (2007: loss $0.4 million).

Dividends
It is not proposed to pay a dividend.

Other Appendix 4D information

	31 December 2008	31 December 2007
Net tangible assets per ordinary share	**$0.41**	$0.54

QRxPharma Limited

ABN 16 102 254 151

Interim report for the half-year ended 31 December 2008

QRxPharma Limited ABN 16 102 254 151
Interim report – 31 December 2008

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 2008 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 20 February 2009. The company has the power to amend and reissue the financial report.

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

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 2008.

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 profit from ordinary activities after income tax of $608,000 (2007: loss $6.7 million) for the half-year. The profit is attributable primarily to an unrealised foreign exchange gain of $7.3 million resulting from the strengthening of the US dollar against the Australian dollar during the half-year.

	Half-year 31 Dec 2008 $'000	Half-year 31 Dec 2007 $'000
Interest income	**609**	1,298
Other income	**7,862**	-
Research and development expenditure	**(4,217)**	(4,068)
General and administration	**(793)**	(907)
Employee salary benefits	**(2,840)**	(1,566)
Depreciation and amortisation	**(13)**	(421)
Fair value loss on derivative financial instrument	**-**	(768)
Net foreign exchange loss	**-**	(417)
Income tax benefit	**-**	125
Profit (loss) for the half-year	**608**	(6,724)

	2008 Cents	2007 Cents
Basic and diluted profit (loss) per share	**0.8**	(9.0)

The consolidated financial statements incorporate the assets and liabilities of QRxPharma Limited and its 100% controlled subsidiaries, QRxPharma Inc, The Lynx Project Pty Limited and Haempatch Pty Limited as at 31 December 2008 and the results of QRxPharma Limited and its subsidiaries for the half-year ended 31 December 2008.

The Group's expenditure for the period ended 31 December 2008 reflects the continuation of the Company's Phase 3 development programme for its lead product candidate MoxDuo™IR (Q8003IR), an immediate release Dual Opioid™ (morphine plus oxycodone) product for the treatment of moderate to severe pain, and the continued development of its other clinical pipeline candidates and preclinical stage drugs in line with forecast development plans.

Review of Operations (continued)

In December 2008 the Company initiated a pilot comparative study to evaluate the efficacy and safety profile of MoxDuo™IR against the individual component analgesic doses of morphine and oxycodone alone. A further pilot comparator study to determine the clinical profile of MoxDuo™IR in the treatment of pain following total knee replacement was initiated in February 2009. The data from both pilot studies will be used to support the final Phase 3 studies.

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

- Designed a clinical trial to evaluate the safety and efficacy of the intravenous formulation of QRxPharma's Dual Opioid™, MoxDuo™IV (Q8012IV) for the immediate post-surgical treatment of hospital-based pain. This study is scheduled to be initiated in Germany in March 2009.
- Continued to progress the development of MoxDuo™CR (Q8011CR), a formulation of QRxPharma Dual Opioid ™ designed to provide 12 hours of pain relief in patients with moderate to severe pain, targeting the initiation of Phase I studies in 2009.
- Progressed QRxPharma's Dystonia and Parkinson's disease development program (Torsin) under a collaborative research agreement at the University of Alabama (Caldwell Labs) to confirm the preclinical efficacy of its lead molecules.
- Continued to focus business development efforts on QRxPharma's venomics platform to secure strategic relationships for the clinical and commercial development of these venom-derived coagulants.

The Company continues to closely manage its cash position while progressing the Phase 3 development programme for MoxDuo™IR, with the Company retaining A$29.9 million in cash reserves at 31 December 2008.

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: 20 February 2009

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Auditor's Independence Declaration

As lead auditor for the review of QRxPharma Limited for the half year ended 31 December 2008, 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
20 February 2009

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QRxPharma Limited
Consolidated income statement
For the half-year ended 31 December 2008

	Note	Half - year	
		2008	2007
		$'000	$'000
Revenue from continuing operations		**609**	1,298
Other income	3	**7,862**	-
Research and development		**(4,217)**	(4,068)
Employee benefits expense			
- employee salary benefits		**(2,068)**	(1,235)
- defined contribution superannuation		**(20)**	(11)
- share based payments		**(752)**	(320)
Depreciation and amortisation		**(13)**	(421)
Net foreign exchange loss		**-**	(417)
Fair value loss on derivative financial instrument		**-**	(768)
General and administration		**(793)**	(907)
Profit / (loss) before income tax		**608**	(6,849)
Income tax benefit		**-**	125
Profit / (loss) from continuing operations		**608**	(6,724)
Profit / (loss) for the half-year		**608**	(6,724)
Earnings per share for loss attributable to the ordinary equity holders of the company:		**Cents**	Cents
Basic profit (loss)per share		**0.8**	(9.0)
Diluted profit(loss) per share		**0.8**	(9.0)

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

QRxPharma Limited
Consolidated balance sheet
As at 31 December 2008

	Note	31 December 2008 $'000	30 June 2008 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**29,940**	29,672
Trade and other receivables		**141**	158
Derivative financial instruments – held for sale	4	**569**	-
Other current assets	5	**1,201**	458
Total current assets		**31,851**	30,288
Non-current assets			
Property, plant and equipment		**85**	73
Intangible assets		**-**	-
Total non-current assets		**85**	73
Total assets		**31,936**	30,361
LIABILITIES			
Current Liabilities			
Trade and other payables		**1,190**	2,024
Total current liabilities		**1,190**	2,024
Total liabilities		**1,190**	2,024
Net assets		**30,746**	28,337
EQUITY			
Contributed equity		**79,694**	79,694
Reserves		**5,384**	3,584
Accumulated losses		**(54,332)**	(54,941)
Total equity		**30,746**	28,337

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 2008

	Half-year	
	2008	2007
	$'000	$'000
Total equity at the beginning of the financial year	**28,337**	61,980
Profit / (loss) for the half-year	**608**	(6,724)
Transaction with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs	-	(112)
Employee shares and share options	**1,801**	470
	1,801	358
Total equity at the end of the financial period	**30,746**	55,614

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

QRxPharma Limited
Consolidated cash flow statement
For the half-year ended 31 December 2008

	Note	Half-year 2008 $'000	2007 $'000
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		**(7,220)**	(6,140)
Payments for patents		**(396)**	(136)
Interest received		**616**	802
Income tax R&D receipt		**-**	125
Net cash outflow from operating activities		**(7,000)**	(5,349)
Cash flows from investing activities			
Payments for property, plant and equipment		**(28)**	(31)
Interest received		**-**	330
Proceeds for held-to-maturity investments		**-**	9,691
Net cash inflow/(outflow) from investing activities		**(28)**	9,990
Cash flows from financing activities			
Payments made in relation to IPO		**-**	(31)
Net cash inflow/(outflow) from financing activities		**-**	(31)
Net increase/(decrease) in cash and cash equivalents		**(7,028)**	4,610
Cash and cash equivalents at the beginning of the Financial year		**29,672**	35,690
Effects of exchange rate changes on cash and cash equivalents		**7,296**	(418)
Cash and cash equivalents at end of half-year		**29,940**	39,882

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 2008 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 2008 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 Other income

	Note	Half-year	
		2008	2007
		$'000	$'000
Net foreign exchange gain		7,293	-
Fair value gain on derivative financial instrument	4	569	-
		7,862	-

4 Fair value gain 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 option contracts were to cover anticipated expenditure of at least $29 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.

At 31 December, 2008 the outstanding foreign exchange put option contracts have been fair valued at $569,000, (30 June 2008: $ nil).

5 Other current assets

	Half-year	
	2008	2007
	$'000	$'000
Prepayments	1,201	458

Prepayments relate predominantly to advance payments of clinical trial expenditure.

6 Contingent Liabilities

There have been no changes in the company's contingent liabilities reported as at 30 June 2008.

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 2008 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: 20 February 2009

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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 2008, 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 both QRxPharma Limited and the QRxPharma 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 controls 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 2008 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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Independent auditor's review report to the members of QRxPharma Limited (continued)

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 2008 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

PricewaterhouseCoopers

Manoj Santiago
Partner

Sydney
20 February 2009