QRxPharma Limited

ABN 16 102 254 151

ASX Half year report – 31 December 2011

Lodged with the ASX under Listing Rule 4.2A

This report is to be read in conjunction with the Annual Report for the year ended 30 June 2011 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

Results for announcement to the market (Appendix 4D item 2)	2
Supplementary Appendix 4D information (Appendix 4D items 3 to 9)	2
Half year report	3

QRxPharma Limited

ABN 16 102 254 151

Reporting period: Half year ended 31 December 2011
(Previous corresponding period: Half year ended 31 December 2010)

Results for announcement to the market

				A$'000
Revenue from ordinary activities	**Up**	**242%**	to	**356**
Net loss from ordinary activities after tax	**Down**	**43%**	to	**5,665**
Net loss for the half year attributable to members	**Down**	**43%**	to	**5,652**

Note:
Revenue from ordinary activities is represented by interest income earned on cash reserves and the recognition as income of $301,000 of license fees received. At 31 December 2011, following a successful capital raising of $26.5 million before expenses, the Group retains $32.9 million (30 June 2011: $7.3 million) in cash and cash equivalents. The Group's cash position was augmented by the receipt from Actavis Inc. of a US$6 million non-refundable, non-creditable upfront fee paid on the signing of a Letter of Intent to commercialise MoxDuo IR in the US acute pain marketplace. At 31 December 2010, the Group had $21.1 million in cash and cash equivalents.

Dividends
It is not proposed to pay a dividend.

Other Appendix 4D information

	31 December 2011	31 December 2010
Net tangible assets per ordinary share	**$0.19**	$0.17

QRxPharma Limited

ABN 16 102 254 151

Interim report for the half-year ended 31 December 2011

QRxPharma Limited ABN 16 102 254 151
Interim report – 31 December 2011

Contents

	Page
Directors' report	1
Interim financial report	
Consolidated statement of comprehensive income	4
Consolidated balance sheet	5
Consolidated statement of changes in equity	6
Consolidated cash flow statement	7
Notes to the consolidated financial statements	8
Directors' declaration	13
Independent auditor's review to the report	14

This half-year report covers 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 2011 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 2012. 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 2011.

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 $5.7 million (2010: loss of $9.9 million) for the half-year.

	Half-year 31 Dec 2011 $'000	Half-year 31 Dec 2010 $'000
Interest income	**55**	104
License fee received	**301**	-
Other income	**291**	662
Research and development expenditure	**(4,223)**	(5,061)
General and administration	**(851)**	(936)
Business development	**(550)**	(762)
Employee salary benefits	**(2,844)**	(2,608)
Depreciation and amortisation	**(33)**	(34)
Net foreign exchange gain/(loss)	**2,189**	(1,318)
(Loss) / profit for the half-year	**(5,665)**	(9,953)
Non-controlling interest	**13**	39
Loss attributable to owners of QRxPharma Limited	**(5,652)**	(9,914)

	2011 Cents	2010 Cents
Basic and diluted (loss) per share	**(4.0)**	(9.1)

The consolidated financial statements incorporate the assets and liabilities of QRxPharma Limited and its controlled subsidiaries, QRxPharma Inc, Venomics Pty Limited, The Lynx Project Pty Limited and Haempatch Pty Limited as at 31 December 2011 and the results of QRxPharma Limited and its subsidiaries for the half-year ended 31 December 2011.

The Group's expenditure for the period continues to reflect the furtherance of the New Drug Application (NDA) programme for lead product candidate MoxDuo IR, an immediate release dual opioid (morphine plus oxycodone) product for the treatment of moderate to severe pain, together with the continued development of its other clinical pipeline candidates and preclinical stage drugs in line with forecast development plans.

The Company finalised the lodgement of the NDA for MoxDuo IR in August 2011 and announced in November that it had received written acceptance from the United States Food and Drug Administration (FDA) that the agency had completed their NDA filing review and determined the application was sufficiently complete to permit a substantive review. The FDA set 25 June 2012 as the PDUFA (Prescription Drug User Fee Act) target date for action on the approval of the MoxDuo IR NDA.

The NDA is the basis for US regulatory approval of MoxDuo IR for the treatment of moderate to severe acute pain, a $2.5 billion segment of the $8 billion spent annually on prescription opioids in the US. The US NDA package will serve as the core component of MoxDuo registration submissions in Europe, Australia, Canada and elsewhere.

Review of Operations (continued)

On 20 December 2011 the Company executed a binding Letter of Intent (LOI) with Actavis Inc. to commercialise MoxDuo IR in the US acute pain marketplace. The parties expect to execute a more detailed agreement by 15 March 2012. The launch of MoxDuo IR in the US is projected to occur in Q3 CY 2012 and pre-launch preparations are underway.

The LOI grants Actavis exclusive rights to commercialise and further develop MoxDuo IR for the US market while assuming all costs for product launch as well as ongoing marketing and sales efforts in the US. QRxPharma, however, has retained the right to co-promote MoxDuo IR in the US and maintains all rights outside the US.

Actavis will pay QRxPharma royalties of 10% to 30% depending on net sales thresholds, except for a period starting 3 to 6 months following launch where QRxPharma will receive a 50% royalty on US$150 million in cumulative sales. Under the co-promotion/profit-share right, QRxPharma can create its own sales force and provide up to 25% of the effective selling effort to US prescribers at any time following the first 12 months after product launch.

The agreement also provides Actavis an option to negotiate for US marketing and sales rights of QRxPharma's chronic pain controlled release Dual-Opioid, MoxDuo CR, as well as its hospital-based intravenous formulation, MoxDuo IV.

The binding LOI was also secured by a non-refundable, non-creditable upfront signing fee of US$6 million, which bolstered the Company's cash position at the quarter's end. The company retains $32.9 million in cash reserves at 31 December 2011 after completing a successful capital raising of $26.5 million before expenses during the second half of 2011. The capital proceeds will be used to support MoxDuo IR registrations in Australia, Canada, Europe and elsewhere.

In addition, the proceeds of the capital raising will be used to progress the development of MoxDuo Controlled Release (CR), the Company's continuous release dual opioid formulation intended for twice daily dosing wherein each dose provides at least 12 hours of pain relief in patients with moderate to severe chronic pain including cancer, lower back, osteoarthritis and neuropathic pain.

The Company has prepared initial formulations of MoxDuo CR and conducted a successful Phase 1 study to determine which formulations provided the optimum duration of drug levels in the blood. In 2012, QRxPharma will accelerate the MoxDuo CR tablet development, which encompasses sustained delivery technology as well as abuse deterrent and tamper resistant features. Three additional Phase 1 studies and a Phase 2 study are planned for the coming year with anticipation of MoxDuo CR undertaking Phase 3 development in 2013.

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: 24 February 2012

pwc

Auditor's Independence Declaration

As lead auditor for the review of QRxPharma Limited for the half-year ended 31 December 2011, 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.

MW Chiang
Partner
PricewaterhouseCoopers

Sydney
24 February 2012

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
DX 77 Sydney, Australia
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

QRxPharma Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2011

	Note	Half - year	
		2011	2010
		$'000	$'000
Revenue from continuing operations	**3**	**356**	104
Other income	4	**291**	662
Employee benefits expense			
- employee salary benefits		**(1,976)**	(2,133)
- defined contribution superannuation		**(30)**	(36)
- share based payments		**(838)**	(439)
Research and development		**(4,223)**	(5,061)
Business development		**(550)**	(762)
General and administration		**(851)**	(936)
Net foreign exchange gain/(loss)		**2,189**	(1,318)
Depreciation and amortisation		**(33)**	(34)
(Loss) /profit before income tax		**(5,665)**	(9,953)
Income tax benefit		**-**	-
(Loss) / profit from continuing operations		**(5,665)**	(9,953)
(Loss) / profit for the half-year		**(5,665)**	(9,953)
Other comprehensive (loss) / income			
Exchange differences on translation of foreign operations		**53**	(138)
Other comprehensive (loss) / income for the half-year, net of tax		**53**	(138)
Total comprehensive (loss) / income for the half-year		**(5,612)**	(10,091)
Loss is attributable to:			
Owners of QRxPharma Limited		**(5,652)**	(9,914)
Non-controlling interest		**(13)**	(39)
		(5,665)	(9,953)
Total comprehensive (loss) is attributable to:			
Owners of QRxPharma Limited		**(5,599)**	(10,052)
Non-controlling interests		**(13)**	(39)
		(5,612)	(10,091)
Earnings per share for loss attributable to the ordinary equity holders of the company:		**Cents**	Cents
Basic (loss) per share		**(4.0)**	(9.1)
Diluted (loss) per share		**(4.0)**	(9.1)

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

QRxPharma Limited
Consolidated balance sheet
As at 31 December 2011

	Note	31 December 2011 $'000	30 June 2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**32,852**	7,291
Trade and other receivables		**58**	60
Other current assets	6	**351**	295
Total current assets		**33,261**	7,646
Non-current assets			
Property, plant and equipment		**213**	196
Available for sale financial assets	7	**407**	407
Total non-current assets		**620**	603
Total assets		**33,881**	8,249
LIABILITIES			
Current Liabilities			
Trade and other payables	8	**1,183**	1,722
Other current liabilities	9	**5,607**	-
Total current liabilities		**6,790**	1,722
Total liabilities		**6,790**	1,722
Net assets		**27,091**	6,527
EQUITY			
Contributed equity	10	**144,147**	118,809
Reserves		**9,916**	9,025
Accumulated losses		**(127,009)**	(121,357)
Capital and reserves attributable to the owners of QRxPharma Limited		**27,054**	6,477
Non-controlling interest		**37**	50
		27,091	6,527

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 2011

	Attributable to owners of QRxPharma Limited					
	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000	Non-controlling interest $'000	Total equity $'000
Consolidated						
Balance at 1 July 2010	**99,969**	**7,489**	**(95,784)**	**11,674**	**105**	**11,779**
Profit/ (loss) for the half-year	-	-	(9,914)	(9,914)	(39)	(9,953)
Other comprehensive (loss)	-	(138)	-	(138)	-	(138)
Total comprehensive (loss) for the half-year	**-**	**(138)**	**(9,914)**	**(10,052)**	**(39)**	**(10,091)**
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	18,809	-	-	18,809	-	18,809
Employee share scheme	-	441	-	441	-	441
	18,809	441	-	19,250	-	19,250
Balance at 31 December 2010	**118,778**	**7,792**	**(105,698)**	**20,872**	**66**	**20,938**
Balance at 1 July 2011	**118,809**	**9,025**	**(121,357)**	**6,477**	**50**	**6,527**
Profit/ (loss) for the half-year	-	-	(5,652)	(5,652)	(13)	(5,665)
Other comprehensive income	-	53	-	53	-	53
Total comprehensive income for the half-year	**-**	**53**	**(5,652)**	**(5,599)**	**(13)**	**(5,612)**
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	25,338	-	-	25,338	-	25,338
Employee share scheme	-	838	-	838	-	838
	25,338	838	-	26,176	-	26,176
Balance at 31 December 2011	**144,147**	**9,916**	**(127,009)**	**27,054**	**37**	**27,091**

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 2011

	Note	Half-year 2011 $'000	2010 $'000
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		**(7,696)**	(9,606)
Payments for patents		**(219)**	(382)
Interest received		**80**	104
Grant received		**-**	749
License fee received		**5,918**	-
Net cash inflow / (outflow) from operating activities		**(1,917)**	(9,135)
Cash flows from investing activities			
Payments for property, plant and equipment		**(49)**	(20)
Net cash inflow/(outflow) from investing activities		**(49)**	(20)
Cash flows from financing activities			
Proceeds from capital raising	10	**26,609**	19,779
Payments made in relation to capital raising	10	**(1,271)**	(970)
Net cash inflow/(outflow) from financing activities		**25,338**	18,809
Net increase/(decrease) in cash and cash equivalents		**23,372**	9,654
Cash and cash equivalents at the beginning of the Financial year		**7,291**	12,760
Effects of exchange rate changes on cash and cash equivalents		**2,189**	(1,318)
Cash and cash equivalents at end of half-year		**32,852**	21,096

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

1 Summary of Significant Accounting Policies

a) Basis of Preparation

This general purpose financial report for the interim half-year reporting period ended 31 December 2011 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 2011 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.

Revenue Recognition
Revenue is measured at the fair value of the consideration received or receivable.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

Other than mentioned above, the accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

b) New accounting standards and interpretations

AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective 1 July 2013)
On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. QRxPharma Limited is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

AASB 2010-9 *Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (effective from 1 July 2011) and **AASB 2010-10 *Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters*** (effective from 1 July 2013)
AASB 1 *First-time Adoption of Australian Accounting Standards* was amended in December 2010 by eliminating references to fixed dates for one exemption and one exception dealing with financial assets and liabilities. The AASB also introduced a new exemption for entities that resume presenting their financial statements in accordance with Australian Accounting Standards after having been subject to severe hyperinflation. Neither of these amendments will affect the financial statements of the Group.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)
In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

1 Summary of Significant Accounting Policies (continued)

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. As the Group is not party to any joint arrangements, this standard will not have any impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

AASB 127 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The Group is still assessing the impact of these amendments.

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)
AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013)
In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. Since the Group does not have any defined benefit obligations, the amendments will not have any impact on the Group's financial statements.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)
In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 July 2012.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013)
In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent

1 Summary of Significant Accounting Policies (continued)

standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) and Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)
(effective 1 January 2014 and 1 January 2013 respectively)
In December 2011, the IASB made amendments to the application guidance in IAS 32 Financial Instruments: Presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current arrangements. However, the IASB has also introduced more extensive disclosure requirements into IFRS 7 which will apply from 1 January 2013. The AASB is expected to make equivalent changes to IAS 32 and AASB 7 shortly. When they become applicable, the group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The Group intends to apply the new rules for the first time in the financial year commencing 1 July 2013.

2 Segment information

The Board of Directors of QRxPharma Limited monitors the performance of the Group at a consolidated level. Segment results and total assets and liabilities are represented by the consolidated statements of comprehensive income and consolidated balance sheet.

3 Revenue from continuing operations

	Half-year	
	2011	2010
	$'000	$'000
License fee received	**301**	-
Interest	**55**	104
	356	104

On 20 December 2011, the Company signed a binding Letter of Intent (LOI) with Actavis Inc to commercialise MoxDuo IR in the USA. The LOI was secured by a non-refundable, non-creditable up front signing fee of US$6 million. The fee revenue will be recognised from the date of the signing of the LOI to the anticipated MoxDuo IR product launch date. The Group has recognised $301,000 as revenue and $5.6 million as deferred revenue in the period to 31 December 2011.

4 Other income

		Half-year	
		2011	2010
		$'000	$'000
Sale of derivative financial instrument	5	**291**	-
Grants received		**-**	748
Fair value (loss)/gain on derivative financial instrument		**-**	(86)
		291	662

5 Derivative financial instrument

During the half year the Group purchased a number of foreign exchange option contracts at a cost of $152,000 to protect against adverse movements between the AU$ and US$. These option contracts were not utilised during the period and were repurchased by the bank for $291,000 netting the Group a gain on sale of foreign currency option contracts of $139,000. There were no contracts on hand at 31 December 2011.

During the previous half-year ended 31 December 2010, the Group had entered into a series of flexible forward foreign exchange contracts to protect against adverse foreign exchange movements between the AU$ and US$. Each contract stood alone and all matured within 6 months of 31 December 2010. At 31 December 2010, a fair value of $117,373 was recognised in relation to these contracts.

6 Other current assets

	31 Dec 2011 $'000	30 June 2011 $'000
Prepayments	**351**	295

Prepayments relate predominantly to advance payments of clinical trial expenditure.

7 Available for sale financial assets

The available for sale financial asset represents the Group's investment in Venomics Hong Kong Limited. The investment is held by Venomics Pty Limited, which is a majority owned subsidiary of QRxPharma Limited and holds all of the venomics assets of the Group and maintains a minority interest in Venomics Hong Kong Limited.

8 Trade and other payables

	31 Dec 2011 $'000	30 June 2011 $'000
Trade payables	**264**	935
Accrued employee benefits	**782**	595
Other payables	**137**	192
	1,183	1,722

Accrued employee benefits include accruals for annual leave of $332,000 (2010: $250,000). The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. It is expected that employees will use the full amount of accrued leave within the next 12 months.

9 Current liabilities

	31 Dec 2011 $'000	30 June 2011 $'000
Deferred Revenue – see note 3	**5,607**	-

10 Equity securities issued

		Number of shares	Issue price	$'000
1 July 2011	Balance	125,824,127		118,809
28 July 2011	Share Placement	17,241,379	1.45	25,000
2 August 2011	Option Exercise	30,000	0.20	6
2 August 2011	Option Exercise	20,000	0.65	13
30 August 2011	Rights Issue	1,046,351	1.45	1,517
26 September 2011	Option Exercise	20,000	0.20	4
2 November 2011	Option Exercise	8,000	0.20	2
2 November 2011	Option Exercise	5,000	0.65	3
2 November 2011	Option Exercise	50,000	0.84	42
19 December 2011	Option Exercise	33,333	0.65	22
Less: transaction costs arising on issue of shares		-		(1,271)
31 December 2011	Balance	144,278,190		144,147

During the half year, QRxPharma Limited successfully raised $26.5 million (before expenses) as a result of a Share Placement raising $25.0 million and a Rights Issue raising a further $1.5 million. The issue price under the Placement and Rights Issue was $1.45 per share resulting in the issue of 18.3 million new ordinary shares.

11 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

Name of entity	Country of incorporation	Class of shares	31 Dec 2011 %	30 June 2011 %
The Lynx Project Pty Limited	Australia	Ordinary	100	100
Haempatch Pty Limited	Australia	Ordinary/Preference	100	100
QRxPharma, Inc.	USA	Ordinary	100	100
Venomics Pty Limited	Australia	Ordinary	80	80

12 Convertible note

During the half-year, QRxPharma Limited subscribed to 5,000 (2010: 37,500) convertible notes in Venomics Pty Limited at US$4 (2010: US$4) face value per note. These notes carry an interest rate of 10% (2010:10%) per annum (compounding monthly), and mature on 1 December 2012 (2010: 20 December 2011). The maturity date of the notes issued in the half year ended 31 December 2010 has been extended to 20 December 2012. Each note is convertible at QRxPharma Limited's request and it also has the ability to require redemption of some or all of the notes under certain conditions.

At 31 December 2011, QRxPharma Limited assessed the carrying value of these notes and determined that these notes may not be recoverable. Accordingly it has fully impaired the value of these notes at 31 December 2011.

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

13 Contingent liabilities

There have been no other changes in the company's contingent liabilities reported as at 30 June 2011.

14 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 12 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 2011 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: 24 February 2012

pwc

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 consolidated balance sheet as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, 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 of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

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 a 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 2011 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. 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.

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
DX 77 Sydney, Australia
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

pwc

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 2011 and of its performance for the half-year ended on that date; and

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

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the (Company for the half-year ended 31 December 2011 included on QRxPharma Limited's web site. The company's directors are responsible for the integrity of the QRxPharma Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

PricewaterhouseCoopers

MW Chiang

24 February 2012