



QRxPharma Limited

ABN 16 102 254 151

ASX Half year report – 31 December 2010

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 2010 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 2010

(Previous corresponding period: Half year ended 31 December 2009)

Results for announcement to the market

				A\$'000
Revenue from ordinary activities	Up	108%	to	104
Net loss from ordinary activities after tax	Down	15.8%	to	9,953
Net loss for the half year attributable to members	Down	15.7%	to	9,914

Note:

Revenue from ordinary activities is represented by interest income earned on cash reserves. At 31 December 2010, following a successful capital raising of \$19.8 million before expenses, the Group retains \$21.1 million (30 June 2010: \$12.8 million) in cash and cash equivalents. At 31 December 2009, the Group had \$27.2 million in cash and cash equivalents.

Dividends

It is not proposed to pay a dividend.

Other Appendix 4D information

	<u>31 December</u> <u>2010</u>	<u>31 December</u> <u>2009</u>
Net tangible assets per ordinary share	\$0.17	\$0.26

QRxPharma Limited

ABN 16 102 254 151

Interim report for the half-year ended 31 December 2010

QRxPharma Limited ABN 16 102 254 151
Interim report – 31 December 2010

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	12
Independent auditor's review to the report	13

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 2010 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 21 February 2011. 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 2010.

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 \$9.9 million (2009: loss of \$11.8 million) for the half-year.

	Half-year 31 Dec 2010 \$'000	Half-year 31 Dec 2009 \$'000
Interest income	104	50
Other income	662	444
Research and development expenditure	(5,061)	(5,956)
General and administration	(936)	(1,058)
Business development	(762)	(494)
Employee salary benefits	(2,608)	(3,737)
Depreciation and amortisation	(34)	(32)
Net foreign exchange (loss)/gain	<u>(1,318)</u>	<u>(1,040)</u>
(Loss) / profit for the half-year	(9,953)	(11,823)
Non-controlling interest	<u>39</u>	<u>62</u>
Loss attributable to owners of QRxPharma Limited	<u>(9,914)</u>	<u>(11,761)</u>
	2010	2009
	Cents	Cents
Basic and diluted (loss) per share	(9.1)	(15.1)

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 2010 and the results of QRxPharma Limited and its subsidiaries for the half-year ended 31 December 2010.

The Group's expenditure for the period ended 31 December 2010 continues to reflect the advancement of the Phase 3 development 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.

Review of Operations (continued)

In December 2010, the Company completed patient enrolment (142 subjects) for a pivotal Phase 3 registration trial for MoxDuo IR. This comparative double-blind, two-arm study was designed to evaluate analgesic efficacy and safety of MoxDuo IR, by comparing a flexible analgesic dose regimen of MoxDuo IR to a fixed low dose in patients following total knee replacement surgery. The successful completion of this study was announced on 21 February 2011.

In August 2010, positive results were announced of a Phase 2 comparative proof-of-concept study to evaluate the efficacy and safety of MoxDuo IV (intravenous) formulation of morphine plus oxycodone versus IV morphine alone for the treatment of moderate to severe post-operative pain in patients following hip replacement surgery. The main findings demonstrated that the Company's formulation of MoxDuo IV resulted in fewer side effects and offered better pain relief than morphine alone.

The Company further progressed the development of MoxDuo CR (controlled release) which is designed to provide twelve hours of pain relief in patients suffering from moderate to severe chronic pain (including cancer, lower back, osteoarthritis and neuropathic).

Collaborative research work also continued at the University of Alabama on the Company's dystonia, Parkinson's disease and Alzheimer's Disease programme (Torsin).

The Group retains \$21.1 million in cash reserves at 31 December 2010 after completing a successful \$19.8 million (before expenses) capital raising during the latter half of 2010. The capital raising proceeds will be used, in part, to fund a Phase 3 trial which was initiated in January 2011 comparing the tolerability and safety profile of MoxDuo IR to equi-analgesic doses of either morphine or oxycodone given alone. The results of the trial will form part of a Marketing Authorisation Application (MAA) filing for approval to market in Europe. In addition, study results, when published in medical literature, may, in conjunction with other trial data, be a component of the promotional package following projected commercial launch of MoxDuo IR in the US and in Europe in 2012.

The funds will also be used to support the Company during 2011, particularly as it approaches a major milestone, the filing of its New Drug Application (NDA) with the US Food and Drug Administration (FDA) for MoxDuo IR expected to occur by mid-year 2011.

The Group's cash position has been further supplemented by the receipt of grant funding of over US\$0.7 million under the Qualifying Therapeutic Discovery Project program offered by the US Government's Department of the Treasury. The grants were awarded to support the development of MoxDuo, together with the Company's Torsin programme.

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: 21 February 2011

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
www.pwc.com/au

Auditor's Independence Declaration

As lead auditor for the review of QRxPharma Limited for the half year ended 31 December 2010, 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
21 February 2011

QRxPharma Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2010

	Note	Half - year	
		2010 \$'000	2009 \$'000
Revenue from continuing operations		104	50
Other income	3	662	444
Employee benefits expense			
- employee salary benefits		(2,133)	(2,700)
- defined contribution superannuation		(36)	(36)
- share based payments		(439)	(1,001)
Research and development		(5,061)	(5,956)
Business development		(762)	(494)
General and administration		(936)	(1,058)
Net foreign exchange loss		(1,318)	(1,040)
Depreciation and amortisation		(34)	(32)
Profit / (loss) before income tax		<u>(9,953)</u>	<u>(11,823)</u>
Income tax benefit		-	-
(Loss) / profit from continuing operations		<u>(9,953)</u>	<u>(11,823)</u>
(Loss) / profit for the half-year		<u>(9,953)</u>	<u>(11,823)</u>
Other comprehensive (loss) / income			
Exchange differences on translation of foreign operations		(138)	(178)
Other comprehensive (loss) / income for the half-year, net of tax		<u>(138)</u>	<u>(178)</u>
Total comprehensive (loss) / income for the half-year		<u>(10,091)</u>	<u>(12,001)</u>
Loss is attributable to:			
Owners of QRxPharma Limited		(9,914)	(11,761)
Non-controlling interest		(39)	(62)
		<u>(9,953)</u>	<u>(11,823)</u>
Total comprehensive (loss) is attributable to:			
Owners of QRxPharma Limited		(10,052)	(11,939)
Non-controlling interests		(39)	(62)
		<u>(10,091)</u>	<u>(12,001)</u>
Earnings per share for loss attributable to the ordinary equity holders of the company:		Cents	Cents
Basic (loss) / profit per share		(9.1)	(15.1)
Diluted (loss) / profit per share		(9.1)	(15.1)

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 2010

	Note	31 December 2010 \$'000	30 June 2010 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		21,096	12,760
Trade and other receivables		51	76
Derivative financial instruments	4	117	-
Other current assets	5	<u>550</u>	<u>390</u>
Total current assets		<u>21,814</u>	<u>13,226</u>
Non-current assets			
Property, plant and equipment		224	240
Available for sale financial assets	6	<u>407</u>	<u>407</u>
Total non-current assets		<u>631</u>	<u>647</u>
Total assets		<u>22,445</u>	<u>13,873</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	7	<u>1,507</u>	<u>2,094</u>
Total current liabilities		<u>1,507</u>	<u>2,094</u>
Total liabilities		<u>1,507</u>	<u>2,094</u>
Net assets		<u>20,938</u>	<u>11,779</u>
EQUITY			
Contributed equity	8	118,778	99,969
Reserves		7,792	7,489
Accumulated losses		<u>(105,698)</u>	<u>(95,784)</u>
Capital and reserves attributable to the owners of QRxPharma Limited		<u>20,872</u>	<u>11,674</u>
Non-controlling interest		<u>66</u>	<u>105</u>
		<u>20,938</u>	<u>11,779</u>

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 2010

	<u>Attributable to owners of QRxPharma Limited</u>					Total equity \$'000
	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	Non- controlling interest \$'000	
Consolidated						
Balance at 1 July 2009	79,694	5,737	(68,436)	16,995	-	16,995
Total comprehensive (loss) / income for the half-year	-	(178)	(11,761)	(11,939)	(62)	(12,001)
Contribution of equity, net of transaction costs	20,328	-	-	20,328	-	20,328
Employee share scheme	-	886	-	886	116	1,002
Transactions with non-controlling interest	-	463	-	463	116	579
Balance at 31 December 2009	100,022	6,908	(80,197)	26,733	170	26,903
Balance at 1 July 2010	99,969	7,489	(95,784)	11,674	105	11,779
Total comprehensive (loss) / income for the half year	-	(138)	(9,914)	(10,052)	(39)	(10,091)
Transactions with owners in their capacity as owners						
Contribution of equity, net of transaction costs	18,809	-	-	18,809	-	18,809
Employee share scheme	-	441	-	441	-	441
Balance at 31 December 2010	118,778	7,792	(105,698)	20,872	66	20,938

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 2010

		Half-year	
	Note	2010 \$'000	2009 \$'000
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		(9,606)	(10,084)
Payments for patents		(382)	(434)
Interest received		104	63
Grant Received		<u>749</u>	<u>-</u>
Net cash inflow / (outflow) from operating activities		<u>(9,135)</u>	<u>(10,455)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(20)	(14)
Proceeds from sale of shares in subsidiary		<u>-</u>	<u>579</u>
Net cash inflow/(outflow) from investing activities		<u>(20)</u>	<u>565</u>
Cash flows from financing activities			
Proceeds from capital raising	8	19,779	21,600
Payments made in relation to capital raising	8	<u>(970)</u>	<u>(1,272)</u>
Net cash inflow/(outflow) from financing activities		<u>18,809</u>	<u>20,328</u>
Net increase/(decrease) in cash and cash equivalents		9,654	10,438
Cash and cash equivalents at the beginning of the Financial year		12,760	17,773
Effects of exchange rate changes on cash and cash equivalents		<u>(1,318)</u>	<u>(1,038)</u>
Cash and cash equivalents at end of half-year		<u>21,096</u>	<u>27,173</u>

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 2010 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 2010 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*.

Convertible Notes

Convertible notes and accrued interest are recognised as a liability by the issuer and as an asset by the note holder until extinguished on conversion or maturity of the bonds. This amount is recorded on an amortised cost basis and the remainder of the proceeds is allocated to the conversion option.

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

b) Going concern

The Group has experienced significant recurring operating losses and negative cash flows from operating activities since its inception. During the year the company successfully raised \$18.8 million net of transaction costs, through a share placement and share purchase plan and at 31 December 2010, the Group holds cash and cash equivalents of \$21.1 million (2009 : \$27.2 million).

The ability of the company to continue as a going concern for 12 months from the date of this financial report is dependent upon the company being successful in completing a further capital raising to provide significant funding to meet the company's ongoing research and development costs and to execute on the commercialisation plan.

As a result of these matters, there is material uncertainty as to whether the company 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. Management will continuously monitor and assess the financial position of the Group in the coming months to determine the precise nature and timing of this event.

Given management's plan to raise further funds and the success of past capital raisings, the directors have prepared the financial report on a going concern basis. The directors remain confident about the successful outcome of the above factors in light of the current progress made in the company's research and development activities and therefore no adjustments have been made to the financial report relating to the 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.

c) New accounting standards and interpretations

AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective for annual reporting periods beginning on or after 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The Group has not yet decided when to adopt AASB 9.

Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective for annual reporting periods beginning on or after 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the amended standard from 1 July 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

Summary of Significant Accounting Policies (continued)

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 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011)

In November 2010, the AASB made amendments to AASB 7 *Financial Instruments: Disclosures* which introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the group's disclosures.

AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Group will apply the amendment from 1 July 2012. There will be no impact on the Group's financial statements.

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. The Group will apply the amendments from 1 July 2011.

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 Other income

	Note	Half-year	
		2010 \$'000	2009 \$'000
Gain on loss of control of subsidiary		-	407
Grants received		748	-
Fair value (loss)/gain on derivative financial instrument		<u>(86)</u>	<u>37</u>
		<u>662</u>	<u>444</u>

4 Fair value gain on derivative financial instrument

During the half year ended 31 December 2010, the Group entered into a series of flexible forward foreign exchange contracts to protect against adverse foreign exchange movements between the AU\$ and US\$. Each contract stands alone and all mature within 6 months of 31 December 2010. Each contract has a floor rate of US\$0.96 and a ceiling of US\$1.00. On the maturity of each contract, if the spot rate is below the floor rate, the Company is obligated to buy the contracted amount of US dollars from the bank at US\$0.96. If the spot rate is above the ceiling rate on contract maturity, the Company is obligated to buy the contracted amount of US dollars from the bank at US\$1.00. If the spot rate is between US\$0.96 and US\$1.00, there is no obligation by either the bank or the company.

At 31 December 2010, a fair value of \$117,373 has been recognised in relation to these contracts.

5 Other current assets

	31 Dec 2010 \$'000	30 June 2010 \$'000
Prepayments	550	390

Prepayments relate predominantly to advance payments of clinical trial expenditure.

6 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.

7 Trade and Other payables

	31 Dec 2010 \$'000	30 June 2010 \$'000
Trade payables	1,004	1,313
Accrued employee benefits	481	468
Other payables	22	313
	1,507	2,094

Accrued employee benefits include accruals for annual leave of \$250,000 (2009: \$215,000). 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.

8 Equity securities issued

		Number of shares	Issue price	\$'000
1 July 2010	Balance	102,475,000		99,969
7 October 2010	Share Placement	3,871,250	0.85	3,291
5 November 2010	Share Placement	12,611,104	0.85	10,719
9 November 2010	Option Exercise	35,000	0.20	7
9 November 2010	Option Exercise	10,000	0.65	6
19 November 2010	Share Purchase Plan	6,771,774	0.85	5,756
	Less: transaction costs arising on issue of shares	-		(970)
31 December 2010	Balance	<u>125,774,128</u>		<u>118,778</u>

During the half year, QRxPharma Limited successfully raised \$19.8 million (before expenses) as a result of a Placement raising \$14.0 million and a Share Purchase Plan raising a further \$5.8 million. The issue price under the Placement and Share Purchase Plan was \$0.85 per share resulting in the issue of 23.3 million new ordinary shares.

9 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 2010 %	30 June 2010 %
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

10 Convertible Note

During the half-year, QRxPharma Limited subscribed to 37,500 convertible notes in Venomics Pty Limited at US\$4 face value per note. These notes carry an interest rate of 10% per annum (compounding monthly), and mature on 20 December 2011. 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.

The Convertible Note Deed provides for a further issue of 25,000 notes if certain conditions are met by Venomics Pty Limited.

The convertible notes are carried in Venomics Pty Limited as a liability at amortised cost together with the embedded derivative for the conversion option which is carried at fair value. The notes are carried in the books of QRxPharma Limited as an asset.

11 Contingent liabilities

There have been no other changes in the company's contingent liabilities reported as at 30 June 2010.

12 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 11 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 2010 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: 21 February 2011

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 2010, the statement of comprehensive income, statement of changes in equity and 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 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 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 2010 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.

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.

**Independent auditor's review report to the members of
QRxPharma Limited (continued)**

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 2010 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*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report which comments on the ability of the company to continue as a going concern and it being dependent on undertaking a further capital raising to provide sufficient funding for its ongoing activities. Accordingly there is material uncertainty whether the QRxPharma limited and its controlled entities will continue as a going concern and, therefore, whether the consolidated entity will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Manoj Santiago
Partner



Sydney
21 February 2011