

Appendix 4E Preliminary Final Report



Appendix 4E Preliminary Final Report

QRxPharma Limited
ABN 16 102 254 151

1. Reporting Period

Report for the financial year ended 30 June 2007.
Previous corresponding period is the financial year ended 30 June 2006.

2. Results for announcement to the market

				SA'000
Revenue from ordinary activities (<i>item 2.1</i>)	up	1,556.7%	To	304
Net loss from ordinary activities after tax attributable to members (<i>item 2.2</i>)	down	88.5%	To	(405)
Net loss for the period attributable to members (<i>item 2.3</i>)	down	88.5%	To	(405)
Brief explanation of any of the figures reported above necessary to enable the figures to be understood (<i>item 2.6</i>)				
Revenue				
The increase represents additional interest income earned principally from net funds raised of \$46.3 million (after listing costs of \$3.7 million) on completion on 25 May 2007 of an initial public offering ("IPO") and the listing of the Company on the Australian Securities Exchange. Interest earned amounted to \$0.3 million (2006: \$0.02 million).				
Net loss from ordinary activities				
The net loss from ordinary activities decreased from \$3.5 million to \$0.4 million owing to a combination of factors, including:				
<ul style="list-style-type: none"> o higher interest income of \$0.3 million o the writeback of accrued interest of \$5.0 million associated with previously issued series A preference shares and convertible notes that were converted into ordinary shares on IPO o reduction in series A preference share and convertible note interest charges to \$1.5 million (2006: \$1.7 million) o a \$1.9 million (2006: \$Nil) write-off of intellectual property included in research and development expenditure. 				

Dividends (*items 2.4 – 2.5, 6 & 7*)
It is not proposed to pay a dividend.

3. Income Statement (*item 3*)

Refer to the attached financial schedule – Schedule A

4. Balance Sheet (*item 4*)

Refer to the attached financial schedule – Schedule A

Appendix 4E Preliminary Final Report**5. Cash Flow Statement (item 5)**

Refer to the attached financial schedule – Schedule A.

However the following should be specifically noted:

- (i) Bank Accepted Commercial Bills and Term Deposits of \$10.5 million having a maturity of greater than 3 months have been classified as short term investments and excluded from disclosure as cash and cash equivalents in accordance with AASB 107 “Cash Flow Statements”.
- (ii) The Company paid \$1.1 million in May 2007 to hedge AUD\$31 million at an exchange rate of USD\$0.8181. It is expected that the Group will spend AUD\$31 million over the next 2 years to fulfil research and development expenditure associated with clinical trials to be conducted in the United States of America (US).

6. Statement of Accumulated Losses (item 6)

Refer to the attached financial schedule – Schedule A

7. Net Tangible Assets per Security (item 9)

	30 June 2007	30 June 2006
Net tangible assets per ordinary share	\$0.62	\$(2.25)

8. Details of entity over which control has been gained (item 10)

The Group acquired 100% of the equity of CNSCo, Inc on 26 April 2007 for consideration equal to 10% of the post-IPO ordinary capital of the Company. The Company issued 7,500,000 ordinary shares @ \$2.00 each in respect of this acquisition.

9. Commentary on the results (item 14)

On 25 May 2007 the Company was listed on the Australian Securities Exchange following the completion of an IPO that raised \$50 million (before listing costs of \$3.7 million) from the issue of 25,000,000 ordinary shares at \$2.00 each. The total issued capital on listing was 75,000,000 ordinary shares, giving a market capitalisation (at \$2.00 per share) of \$150 million.

The funds raised through the IPO are to fund QRxPharma’s pipeline of pharmaceuticals. Specifically, the Offer will fund the Phase III clinical trials and submission of a New Drug Application (NDA) for approval by the United States Food and Drug Administration (FDA) to sell and market the Company’s lead drug candidate Q8003IR, an immediate release “dual opioid” drug for the treatment of moderate to severe pain.

The operating results for the year ended 30 June 2007 reflect the continuing efforts by the Company to conserve cash, minimising the spend on research and development to \$0.5 million (2006: \$1.1 million) as the Company prepared for IPO. Ahead of the IPO the Company maintained minimal headcount. It commenced recruitment of an expanded management team in March and April 2007, with the appointment of John Holaday (Chief Executive Officer), Doug Saltel (Chief Operating Officer), Warren Stern (Executive VP Drug Development) and Chris Campbell (Chief Financial Officer).

Key Achievements

QRxPharma is a specialty pharmaceutical company featuring late-stage clinical drugs for the treatment of pain and central nervous system (CNS) disorders. Our patented products are known drugs that we have repositioned for new applications that address very large international markets and unmet medical needs. By definition, unlike early stage biotech companies that take over a decade from discovery to product, QRxPharma offers products that are well along the clinical development pathway, with an abbreviated time to commercialisation and which can be marketed by a specialty sales force that efficiently calls on physician

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specialists who prescribe in large pharmaceutical markets. We anticipate launching our lead pain product, Q8003IR, in 2010.

- **Initial Public Offering** – On 25 May 2007, QRxPharma completed one of the largest IPOs for life sciences companies on the Australian Securities Exchange, raising \$50 million in a transaction underwritten by JP Morgan Securities.
- **Executive Team** – We have recruited a world-class team of senior executives, with decades of experience in clinical trials, product manufacturing, pharmaceutical marketing and sales, and operations in publicly traded companies.
- **Science Advisory Board (SAB)** – Our SAB is lead by Professor Solomon Snyder, discoverer of the opioid receptor, and the most cited scientist in the world. Additional SAB members are internationally recognised for their contributions as scientists and pharmaceutical executives.
- **Manufacturing Agreements** – We have sourced raw materials and initiated negotiations of manufacturing agreements for our lead dual opioid compounds that enable initiation of clinical studies for Q8003IR and for our second dual opioid, the controlled release drug Q8011CR, before the end of 2007.
- **Clinical Trial Protocols** – Working closely with our advisory board and consultants, we are pursuing an acute pain indication for our lead molecule, Q8003IR. This approach provides the opportunity to shorten the time-to-market, reduce the product's development costs and minimise regulatory hurdles while keeping our commitment to initiate our Phase III program in 2007 and achieve commercialisation by 2010. It also gives us two complementary products (Q8003IR and Q8011CR) that cover both the acute and chronic pain markets totalling over US\$9 billion worldwide.
- **Neurodegenerative Disease Products** – Our agreements with the Caldwell Laboratory at the University of Alabama (UofA) in the US have resulted in a comprehensive program to rapidly select known drugs that are repositioned for the treatment of dystonia and Parkinson's disease. Recently, our relationship with the UofA has been reinforced by significant grant awards from the Michael J. Fox Foundation.

10. Status of audit (items 15 to 17)

This preliminary financial report is based on accounts which are in the process of being audited. It is anticipated that the audit report will be unqualified, and will be made available when the Company lodges its complete Directors' and Financial Reports.



Chris J Campbell
Company Secretary
QRxPharma Limited
15 August 2007

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FINANCIAL SCHEDULE – APPENDIX A

ITEM 1
QRxPharma Limited
Income statement
For the year ended 30 June 2007

		Consolidated	
	Notes	2007 \$	2006 \$
Interest income		304,199	18,362
Other income	1	4,950,574	-
Research and development	2	(2,447,781)	(1,060,320)
Marketing		(97,565)	(178,837)
General and administration		(1,965,707)	(595,059)
Finance costs	2	(1,497,175)	(1,694,649)
Loss before income tax		(753,455)	(3,510,503)
Income tax credit		<u>348,155</u>	-
Loss from continuing operations		<u>(405,300)</u>	<u>(3,510,503)</u>
Loss for the year		<u>(405,300)</u>	<u>(3,510,503)</u>

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FINANCIAL SCHEDULE – APPENDIX A

ITEM 2

QRxPharma Limited

Balance sheet

As at 30 June 2007

	Notes	Consolidated	
		2007	2006
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		35,689,712	248,711
Trade and other receivables		135,565	-
Other financial assets at fair value through profit or loss	3	374,470	-
Prepayments		118,373	-
Held-to-maturity investments	4	<u>10,490,797</u>	-
Total current assets		<u>46,808,917</u>	<u>248,711</u>
Non-current assets			
Other financial assets at fair value through profit or loss	3	547,768	-
Property, plant and equipment		25,482	18,342
Intangible assets	5	<u>15,430,179</u>	-
Total non-current assets		<u>16,003,429</u>	<u>18,342</u>
Total assets		<u>62,812,346</u>	<u>267,053</u>
LIABILITIES			
Current liabilities			
Trade and other payables		677,849	599,488
Other financial liabilities at fair value through profit or loss	3	154,024	-
Borrowings	6	<u>-</u>	<u>3,195,563</u>
Total current liabilities		<u>831,873</u>	<u>3,795,051</u>
Non-current liabilities			
Borrowings	6	<u>-</u>	<u>13,574,115</u>
Total non-current liabilities		<u>-</u>	<u>13,574,115</u>
Total liabilities		<u>831,873</u>	<u>17,369,166</u>
Net assets / (liabilities)		<u>61,980,473</u>	<u>(17,102,113)</u>
EQUITY			
Contributed equity	7	79,932,841	669,968
Reserves		386,894	161,881
Accumulated losses	8	<u>(18,339,262)</u>	<u>(17,933,962)</u>
		61,980,473	(17,102,113)
Total equity / (deficiency in capital)		<u>61,980,473</u>	<u>(17,102,113)</u>

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FINANCIAL SCHEDULE – APPENDIX A

ITEM 3

QRxPharma Limited

Statement of changes in equity

For the year ended 30 June 2007

	Consolidated	
	2007	2006
Notes	\$	\$
Total deficiency in capital at the beginning of the financial year	<u>(17,102,113)</u>	<u>(3,771,966)</u>
Adjustment on adoption of AASB 132 and AASB 139 to:		
Preference shares	<u>-</u>	<u>(9,898,217)</u>
Restated deficiency in capital at the beginning of the financial year	<u>(17,102,113)</u>	<u>(13,670,183)</u>
Loss for the year	<u>(405,300)</u>	<u>(3,510,503)</u>
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs	7 <u>79,262,873</u>	<u>40,533</u>
Employee shares and share options	<u>225,013</u>	<u>38,040</u>
	<u>79,487,886</u>	<u>78,573</u>
Total equity / (deficiency in capital) at the end of the financial year	<u>61,980,473</u>	<u>(17,102,113)</u>

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FINANCIAL SCHEDULE – APPENDIX A

ITEM 4

QRxPharma Limited

Cash flow statement

For the year ended 30 June 2007

	Consolidated	
	2007	2006
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees (inclusive of goods and services tax)	<u>(1,941,365)</u>	<u>(1,901,124)</u>
Interest received	185,187	18,362
R&D grant received	-	43,060
Income tax R&D receipt	348,115	-
Payment for financial instrument	<u>(1,127,430)</u>	<u>-</u>
Net cash outflow from operating activities	<u>(2,535,493)</u>	<u>(1,839,702)</u>
Cash flows from investing activities		
Payments in relation to purchase of subsidiary	(220,462)	-
Payments for property, plant and equipment	(18,260)	-
Payments for intellectual property	(273,679)	-
Payments for held-to-maturity investments	<u>(10,490,797)</u>	<u>-</u>
Net cash outflow from investing activities	<u>(11,003,198)</u>	<u>-</u>
Cash flows from financing activities		
Proceeds from issues of shares	51,726,270	40,533
Payments made in relation to IPO	(3,699,218)	-
Proceeds from borrowings	<u>1,224,801</u>	<u>635,747</u>
Net cash inflow from financing activities	<u>49,251,853</u>	<u>676,280</u>
Net increase (decrease) in cash and cash equivalents	35,713,162	(1,163,422)
Cash and cash equivalents at the beginning of the financial year	248,711	1,412,133
Effects of exchange rate changes on cash and cash equivalents	<u>(272,161)</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>35,689,712</u>	<u>248,711</u>

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FINANCIAL SCHEDULE – APPENDIX A
QRxPharma Limited – 30 June 2007

ITEM 5

NOTE TO THE FINANCIAL STATEMENTS

The financial information included in this announcement does not constitute statutory accounts within the meaning of the Australian Corporations Act 2001. Whilst the financial information has been computed in accordance with Australian Equivalents to International Financial Reporting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001, this announcement does not itself contain sufficient information to comply with those requirements.

A copy of the Company's annual report incorporating compliant financials statement for the year ended 30 June 2007 will be posted to shareholders in October 2007.

Note 1 Other income

	Consolidated	
	2007	2006
	\$	\$
Reversal of accrued interest	<u>4,950,574</u>	-

On 24 May 2007 the Series B convertible notes and Series A preferred shares were converted into ordinary shares and the interest accrued thereon was reversed in accordance with the relevant financing deeds.

Note 2 Expenses

	Consolidated	
	2007	2006
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	11,120	29,988
Net foreign exchange loss	272,161	7,289
<i>Finance costs</i>		
Interest payable on convertible notes	370,948	262,113
Interest payable on preference shares	1,126,227	1,431,007
Other finance expense	-	1,529
	<u>1,497,175</u>	<u>1,694,649</u>
<i>Fair value losses on derivative financial instrument</i>	359,216	-
<i>Employee benefit expense</i>	689,929	351,312
<i>Research and development</i>		
Research and development expensed	2,376,013	1,103,380
Research and development grant	-	(43,060)
Amortisation of intangible assets	71,768	-
	<u>2,447,781</u>	<u>1,060,320</u>

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FINANCIAL SCHEDULE – APPENDIX A
QRxPharma Limited – 30 June 2007

Note 3 Other financial assets at fair value through profit or loss

	Consolidated	
	2007	2006
	\$	\$
Current assets		
Derivative financial instrument	<u>374,470</u>	-
Total current assets	<u>374,470</u>	-
Non-current assets		
Derivative financial instrument	<u>547,768</u>	-
Total non-current assets	<u>547,768</u>	-
Total assets	<u>922,238</u>	-
Current liabilities		
Derivative financial instrument	<u>154,024</u>	-
Total liabilities	<u>154,024</u>	-
	<u>768,214</u>	-

Instruments used by the Group

It is anticipated that the Group will spend \$31 million over the next two years on research and development expenditure associated with clinical trials to be conducted in the United States of America (US). In order to protect against adverse foreign exchange movements between the Australian dollar (AUD) and the US dollar (USD), the Group has entered into a series of foreign exchange put option contracts to purchase US dollars with each put option standing alone.

These put option contracts are hedging existing purchase contracts and highly probable forecasted purchases over the ensuing two financial years and mature as follows: .

	Sell Australian dollars		Average exchange rate	
	2007	2006	2007	2006
	\$	\$		
Maturity				
6 - 12 months	13,200,000	-	USD 0.8180	-
1 - 2 years	17,900,000	-	USD 0.8180	-

The premium paid to enter into the contracts has been measured at fair value through the profit and loss.

The Group has also entered into a series of Smart Forward exchange contracts. These mature within 6 months from 30 June 2007. The Australian Dollar call amount is for \$7,800,000, has a floor of USD 0.80 cents and a trigger of USD 0.8475. Each contract stands alone. At 30 June 2007 a fair value liability of \$154,024 has been recognised in relation to the Smart Forward exchange contracts through to October 2007. The liability in relation to the November and December 2007 contracts has not been recognised as it cannot be reliably estimated that the exchange rate trigger will be breached.

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QRxPharma Limited – 30 June 2007

Note 4 Current assets – Held-to-maturity investments

	Consolidated	
	2007	2006
	\$	\$
Commercial bills	9,690,797	-
Security deposit	800,000	-
	<u>10,490,797</u>	<u>-</u>

The commercial bill is bearing the interest rate of 6.47% (2006: nil) and matures in December 2007.

It is the company's intention to hold the security deposit until the maturity of the Smart Forward exchange contracts. This security deposit bears a fixed interest rate of 6.2% (2006: nil).

Note 5 Non-current assets – Intangibles

The intangible asset relates to intellectual property associated with the acquisition of CNS Co, Inc. Refer to Appendix 4E, point 8 for further details.

Note 6 Current and non-current liabilities – Borrowings

On 24 May 2007 the Series A and B convertible notes and the Series A preferred shares were converted into ordinary shares.

Note 7 Contributed equity movements

Date	Details	Number of shares	Issue price	\$
1 July 2006	Opening balance	7,588,721		669,968
11 April 2007	Exercise of options	9,120	\$0.15	1,368
11 April 2007	Exercise of options	60,000	\$0.15	9,000
19 April 2007	Exercise of options	654,192	\$0.15	98,128
25 April 2007	Exercise of options	80,000	\$0.15	12,000
25 April 2007	Issue of shares	653,640	\$-	-
24 May 2007	Issue of shares	1,912,500	\$1.00	1,912,500
24 May 2007	Conversion of Preferred Series A Shares	18,960,911	\$0.54	9,898,216
24 May 2007	Conversion of Convertible Note Series A	5,674,837	\$0.54	3,067,479
24 May 2007	Conversion of Convertible Note Series B	5,550,000	\$0.27	1,500,000
24 May 2007	Conversion of Convertible Note Series B Warrants	5,550,000	\$0.27	1,500,000
25 May 2007	Issue of shares under employee share plan	509,325	\$-	-
25 May 2007	Compression of shares prior to IPO	(4,703,246)	\$-	-
25 May 2007	Share issue to acquire subsidiary	7,500,000	\$2.00	15,000,000
25 May 2007	Share issue from IPO	25,000,000	\$2.00	50,000,000
	Less: Transaction costs arising on IPO	-		(3,699,218)
	Less: Transaction costs arising on other capital raising	-		(36,600)
30 June 2007	Balance	75,000,000		79,932,841

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FINANCIAL SCHEDULE – APPENDIX A
QRxPharma Limited – 30 June 2007

Note 8 Accumulated Losses

	Consolidated	
	2007	2006
	\$	\$
Opening accumulated losses	(17,933,962)	(14,423,459)
Loss for year	<u>(405,300)</u>	<u>(3,510,503)</u>
Balance 30 June	<u>(18,339,262)</u>	<u>(17,933,962)</u>