

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

Annual Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 for the fiscal year ended: **September 30, 2009**

Transition Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-30813

**AlphaRx, Inc.**

(Name of Small Business Issuer in its Charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**98-0416123**

(I.R.S. Employer Identification No.)

**200-168 Konrad Crescent, Markham, Ontario, Canada L3R 9T9**

(Address of principal executive offices)

**(905) 479-3245**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

<u>Title of Each Class</u>	<u>Name of Exchange on Which Registered</u>
Common Stock (\$0.0001 par value)	None

Check whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days.  
YES  NO

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and that no disclosure will be contained, to the best of issuer's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Issuer's revenues for its most recent fiscal year ended September 30, 2009 were \$ 377,480.

The aggregate market value of the issuer's Common Stock (the only class of voting stock), held by non-affiliates was approximately \$8,775,263 based on the average closing bid and ask price for the Common Stock on December 1, 2009.

As of December 1, 2009 there were 92,371,192 shares outstanding of the issuer's Common Stock.

**AlphaRx, Inc.**

**FORM 10-K**

For the Year Ended September 30, 2009

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## **PART I**

### **ITEM 1. DESCRIPTION OF BUSINESS**

#### **COMPANY BACKGROUND**

In this annual report on Form 10-K, the "Company," "AlphaRx," "we," "us," and "our," refer collectively to AlphaRx, Inc., AlphaRx Canada Limited, our wholly-owned subsidiary, 85% of AlphaRx International Holdings Limited and 85% of AlphaRx Life Sciences Limited.

AlphaRx, Inc., formerly known as Logic Tech International Inc., was incorporated in Delaware on August 8, 1997 as an intellectual property holding company whose mission was to identify, acquire and develop new technologies or products and devise commercial applications to be taken to market through licensing or joint venture partners. Logic Tech International Inc. was renamed AlphaRx, Inc. on January 28, 2000 and our Common Stock commenced trading on the OTC Pink Sheets under the symbol "AHRX" on July 25, 2000. On October 12, 2000 AlphaRx, Inc. Common Stock ceased trading on the Pink Sheets and began trading on the Over The Counter Bulletin Board ("OTCBB") under the same symbol. Subsequent to March 19, 2002 AlphaRx, Inc.'s symbol was changed to "ALRX" after a consolidation of its Common Stock on a 1 new for 5 old basis. All references to AlphaRx, Inc. Common Stock have been retroactively restated.

Effective June 22, 2006 New Super Limited, an independent Hong Kong based corporation, subscribed for 1,500 shares of Common Stock of AlphaRx International Holdings Ltd. ("AIH"), previously a wholly-owned subsidiary of the Company. New Super Limited owns 15% of AIH.

Effective June 30 2006, AlphaRx International Holdings Limited. ("AIH") acquired 100% of AlphaRx Life Sciences Limited. ("ALS") for a nominal amount and the assumption of approximately \$63,000 of related party liabilities. ALS is involved in obtaining necessary regulatory approvals for the manufacture and distribution of the Company's products in the Asian market and continues to seek out partners and collaborative arrangements for the Company.

#### **COMPANY OVERVIEW**

We are a pharmaceutical company, engaged in the research and development of innovative therapeutic products using advanced drug delivery technologies, which we believe, can be combined with a broad range of therapeutic products to improve their effectiveness. Our core strength revolves around our proprietary drug delivery technology - Bioadhesive Colloidal Dispersion (BCD™) drug delivery system, which utilizes nanotechnology to enhance and improve the medical benefits of FDA approved drugs.

Our primary strategy is to seek alliances with pharmaceutical companies, which will assist us in completing the reformulations and development of the drug candidates. Our collaborative partners, licenses, and distributors have enhanced access to capital and have the financial capability to conduct clinical trials, and commercialize and distribute the drug candidates.

We have one product – Indaflex, that has completed a Phase II Proof of Concept clinical trial and has been licensed by one of our partners for completion of late stage clinical trials and commercialization, and several product candidates in different stages of preclinical development.

With only limited financial resources available to us, and with significant competition in the over the counter arthritis and muscle pain relief category, we have decided not to continue pursuing direct sales

and marketing of one of our first products - Flexogan. We will focus our resources on research and development of products and in attempting to establish local and international licensing and distribution arrangements and joint ventures for our new product candidates and our existing over the counter products.

We intend to use our proprietary drug delivery technologies in collaborative arrangements with pharmaceutical companies to formulate their existing commercialized drugs as well as drugs under development by them. By improving drug efficacy and reducing side effects, we believe our drug delivery technologies will provide pharmaceutical companies with the opportunity to enhance the commercial value of their existing products and new drug candidates. We also intend to develop either independently or jointly certain off-patent and over-the-counter ("OTC") products utilizing our proprietary drug delivery technologies.

We entered into a Collaboration agreement during August 2009 with Venturepharm Group, a China based company that provides world-class services for the biotechnology and pharmaceutical industries. Our objectives include the adaptation of our delivery technology to improve the quality and efficacy of pharmaceutical products selected for development in China. Venturepharm Group agrees to provide us with lab space, manufacturing facilities, regulatory services and distribution services all at a competitive rate.

We also signed a collaboration and licensing agreement with Riso Pharma Technology in September 2009. Under the agreement Riso Pharma Technology will undertake development and potential commercialization of ARX606T, which makes use of our proprietary formulation technology to deliver a safe and well-known growth factor topically to patients with severe wounds and ulcers.

We established a feasibility and option agreement in October 2008 with Gaia BioPharma Limited, a privately held early stage biopharmaceutical company. We concluded formulation development on GAI-122 during August 2009. GAI-122 is a drug used for the treatment of delirium caused by prolonged surgery. GAI-122 is proceeding to the clinical trial materials manufacturing stage and is expected to enter clinical trials by the middle of 2010. GAI-122 is protected by 4 United States patent applications.

Development and sales milestone payments could reach \$50 million in addition to royalties based on net product sales that utilize our drug delivery technology. There is no assurance, however, that Gaia BioPharma Limited will proceed with commercialization of the product candidates.

During March 2008 Cypress Bioscience, Inc. ("Cypress") completed the acquisition of our partner Proprius Pharmaceuticals Inc. ("Proprius"). Proprius has development and commercialization rights for Indaflex – our topical cream for the treatment of osteoarthritis of the knee. Additional funding is now available through Cypress in order to further Phase II and III human trials for Indaflex and continue the FDA application process. Under the terms of our agreement, Proprius will undertake completion of clinical trials for Indaflex and will have exclusive global rights (except for Asia and Mexico) to sell and or sublicense Indaflex and any successor NSAID products developed by us. Should clinical trials for Indaflex be successful and sales commence, we will receive clinical trial completion milestone payments and sales milestone payments including a milestone payment of \$3 million for the successful completion of the Phase II or Phase III trials. In addition to the milestone payments, we will receive royalty payments on sales of Indaflex by Proprius, its affiliates and its sublicensees. There are no assurances or guarantees that Proprius and or Cypress will continue with human trials and commercialization of Indaflex. A meeting has been scheduled with the FDA during the first calendar quarter of 2010 in order to determine the specifics of the next clinical trials.

We established AlphaRx International Holdings Limited (“AIH”) in 2005 in order to pursue sales and other commercial activities in the Asia Pacific region with experienced and established partners. To date we have been limited in our scope due to our limited financial resources. Product approval and registration for Indaflex and Flexogan continues in the Asia Pacific region.

In August 2003, we licensed Indaflex, our lead pharmaceutical product under development, to Industria Farmaceutica Andromaco, S.A. de C.V. (“Andromaco”) for commercialization in Mexico. Subject to the terms of the Agreement, Andromaco has the exclusive and non-transferable manufacturing rights and distribution rights in Mexico for Indaflex and we receive 15% royalties based on the gross revenue from product sales. Furthermore, Andromaco is responsible for funding and completing any clinical and regulatory activities in support of Indaflex registration in Mexico. The Agreement has an initial term of five (5) years commencing on the effective date, and it shall automatically be renewed on terms as provided in the Agreement and shall not be terminated without cause. In June 2005, Andromaco launched Indaflex into the Mexican market. We have collected royalties on a regular quarterly basis since that time.

## **PRINCIPAL PRODUCT AND SERVICES AND PRINCIPAL MARKETS**

Drug delivery companies apply proprietary technologies to create new pharmaceutical products utilizing drugs developed by others. These products are generally novel, cost-effective dosage forms that may provide any of several benefits, including better control of drug concentration in the blood, improved safety and efficacy, and ease of use and improved patient compliance. We believe our drug delivery technologies can provide pharmaceutical companies with a means of developing new products as well as extending existing patents.

The increasing need to deliver medication to patients efficiently and with fewer side effects has accelerated the development of new drug delivery systems. Today, medication can be delivered to a patient through many different means of delivery, including transdermal (through the skin), injection, implant and oral methods. These delivery methods, however, continue to have certain limitations. Transdermal patches are often inconvenient to apply and can be irritating to the skin. The rate and concentration of release can also be difficult to control. Injections are uncomfortable for most patients. Implants generally are administered in a hospital or physician's office and frequently are not suitable for home use. Oral administration remains the preferred method of administering medication. Conventional oral drug administration, however, also has limitations in that capsules and tablets have limited effectiveness in providing controlled drug delivery, resulting frequently in drug release that is too rapid (causing incomplete absorption of the drug), irritation to the gastrointestinal (GI) tract and other side effects. In addition capsules and tablets cannot provide localized therapy. Insoluble or poorly soluble drugs are a major problem for the pharmaceutical industry, with over one-third of the drugs listed in the United States' Pharmacopoeia being insoluble or poorly soluble in water. Further, most approaches used to overcome insolubility result in clinical problems ranging from poor and erratic bioavailability to serious side effects.

We are engaged in developing novel formulations of existing drugs that are insoluble or poorly soluble in water, utilizing our proprietary Bioadhesive Colloidal Dispersion (BCD™) (henceforth, “BCD”) drug delivery systems. Our strategy is to develop patentable improved formulations of such drugs that are soluble in human medicines. Our BCD drug delivery technology includes three different approaches to improve the effectiveness of insoluble drugs and provide new methods of delivery, namely, (i) CLD (Colloidal Lipid Dispersion System), (ii) SECRET (Self Emulsifying Controlled Release Tablet System) and (iii) SLN (Solid Lipid Nanoparticles) delivery system and HLN (Hybrid Lipid-polymer Nanoparticles)

The BCD drug delivery technology is designed to develop drugs with major medical advantages, such as lower dosing, fewer side effects and alternative dosage forms, as well as commercial advantages, such as extended patent protection and broader use. We have a number of drugs under development, certain of which have been successfully reformulated, utilizing our BCD technology.

## PRODUCTS AND PRODUCT PIPELINE

The table below is a list of our products and candidates in the product pipeline as well as their current stage of development. Although we believe our development strategy of reformulating FDA approved drugs may have less development risks as compared to new chemical entities development, there can be no guarantee that any product candidates can be successfully developed and as such, we constantly evaluate and prioritize our development programs. As a result, new product candidates are constantly added and lower priority development programs may be discontinued or delayed. We believe this product development optimization process is essential for the development of a broad portfolio of short to long-term drug candidates, which will position the company for stable and sustainable growth. Stages of development include Animal Proof of Concept (“Animal POC”), Investigational New Drug Toxicology Assessment (“IND Toxicology”), Human Proof of Concept (“Human POC”), initial drug Formulation, and Clinical Trial Phases (Phase I, II and III as applicable).

Product	Initial Indication	Stage of Development
Indaflex™*	Osteoarthritis	Phase II
Vansolin™	Pneumonia (MRSA)	Animal (POC)**
Zysolin™	Pneumonia (Gram neg.)	IND Toxicology
Zysolin™	Biodefense	Animal (POC)
Teposolin	Cancers	Formulation
ARX-606T	Wound Healing	IND Toxicology
GAI-122	Delirium	IND Toxicology
GAI-122	Stroke	IND Toxicology
ARX 2038	Lipid Management	Human POC

\* Indaflex is approved for sale in Mexico, but must undergo FDA approval for sale in United States and other countries.

\*\* Animal Proof of concept (POC) activities include basic in vitro and in vivo research attempting to adopt our Nano Delivery System (NDS) to the respective drug while maintaining or improving efficacy and effectiveness of the active ingredients. We anticipate that clinical trials, if they take place at all, will initially be conducted outside the United States.

Indaflex is our only prescription drug at the clinical trial stage. We completed a Phase I human trial for Indaflex in Canada during March 2005.

Together with our licensee Proprius Pharmaceuticals Inc. ("Proprius"), we completed Phase II clinical trials for Indaflex in March 2007. The randomized double-blind placebo and vehicle controlled trial, which included a six-week treatment period, was conducted on 233 patients with osteoarthritis of the knee. While the trial did not meet its primary endpoints, subgroup analyses of patients with moderate to severe pain and more impaired physical function at baseline showed positive trends in patients treated with Indaflex as compared to patients treated with either placebo or vehicle. Indaflex was demonstrated to be safe and well tolerated. Because we did not meet the primary endpoints, under the terms of the

Licensing Agreement with Proprius we did not receive any milestone payments for this trial. Proprius retained the rights to clinical development and commercialization of Indaflex in April 2006 in exchange for an initial license fee and future milestone and royalty payments. Future milestone and royalty payments are based on successful completion of trials and commercialization of Indaflex. Proprius is solely responsible for the global commercialization (with the exception of Asia and Mexico) of Indaflex. Proprius was acquired by Cypress Bioscience Inc. during March 2008.

Indaflex is a topical NSAID formulation intended to be used in the treatment of arthritis. Indaflex's active ingredient, Indomethacin, has a long-standing and proven clinical treatment record. With our enhanced proprietary drug delivery system, we believe its clinical effectiveness to be significantly enhanced. Topical Indaflex delivery is intended to circumvent the significant gastro intestinal side effects found with orally ingested NSAID's.

Vansolin, is a formulation of vancomycin in nanoparticles, targeting serious MRSA (methicillin resistant staph aureus) infections, such as nosocomial pneumonia. The Vansolin development program is being funded by a global specialty pharma, under a feasibility agreement.

Zysolin, a formulation of tobramycin in nanoparticles is our 2<sup>nd</sup> nosocomial product intended for Gram-negative pneumonia in intubated and mechanically ventilated patients. Zysolin is entering IND (investigational new drug) toxicology assessment to be completed by mid-2010 and a Phase I clinical trial is planned for Q3 or Q4 2010. Also USAMRIID (You-SAM-rid), the U.S. military version of the CDC or Centers for Disease control and Prevention have completed 2 studies with Zysolin in treatment of plague and Tularemia and more studies are forthcoming.

AlphaRx Inc., has entered into an exclusive collaboration and licensing agreement with Riso Pharma Tech for the development of ARX606T. Under the terms of the agreement, AlphaRx will give Riso exclusive global rights (with the exception of Asia) of ARX606T, which makes use of AlphaRx's proprietary formulation technology to deliver a safe and well known growth factor topically to patients with severe wounds and ulcers. AlphaRx will earn a double digit royalty on future sales of ARX606T in all countries covered by the agreement and Riso will be responsible for all clinical development and commercialization activities

Teposolin, is a camptothecin compound in nanoparticles indicated initially for the treatment of ovarian cancer; other indications will include lung and colon cancer. It is in the formulation stage.

GAI-122 is an injectable nano-emulsion formula intended for multiple indications including: an adjuvant treatment for hepatitis, the prevention of post-operative delirium, treatment of stroke and as a neuroprotectant. GAI-122 is entering an IND toxicology program to be completed by early 2010 and a Phase I is planned for mid-2010.

The active ingredient in ARX2038 is a synthetic compound with a combination of unique properties. It demonstrates, heart, neuroprotective and cholesterol lowering properties. It has extremely low toxicity (no signs of toxicity at 10,000 mg/kg) and produces no teratogenic, mutagenic or carcinogenic effects. Allergic reactions are extremely rare. This compound offers outstanding cardioprotective properties - decreasing heartburn (the primary symptom of gastroesophageal reflux), improving myocardiodystrophy. It helps in rehabilitation after myocardial infarction. It decreases erythrocyte aggregation, improves oxygen balance (heart tissue), blood viscosity and blood flow. It significantly decreases cholesterol levels (up to 36%), LDL by 20% and triglycerides by 13% and elevates HDL by 47%. Furthermore, this compound has more than 25 years of successful clinical applications outside the USA, in the form of an immediate release tablet. It is highly soluble in water and does not interact with plasma proteins. It does not interact with other drugs or food components.

ARX2038 is a unique extended release formulation of this compound. A Phase II human study is being planned in the later part of 2010.

## **BIOADHESIVE COLLOIDAL DISPERSION (BCD) SYSTEMS**

Our proprietary BCD oral and transdermal drug delivery technologies permit formulations of drug-containing polymeric units that allow controlled delivery of an incorporated hydrophobic drug (this process is referred to as our “BCD Systems”). Although our formulations are proprietary, the polymers utilized in our BCD Systems are commonly used in the food and drug industries. By using different formulations of the polymers, we believe our BCD Systems are able to provide continuous, controlled delivery of drugs of varying molecular complexity and solubility.

The BCD Systems are designed to provide orally and transdermally administered, conveniently dosed, cost-effective drug therapy in a continuous, controlled delivery over a multihour period. We believe our BCD Systems may provide one or more of the following therapeutic advantages over conventional methods of drug administration:

1. *Enhanced Safety and Efficacy.* We believe our BCD Systems may improve the ratio of therapeutic effect to toxicity by decreasing the initial peak concentrations of a drug, associated with toxicity, while maintaining levels of the drug at therapeutic, subtoxic concentrations for an extended period of time. Many drugs demonstrate optimal efficacy when concentrations are maintained at therapeutic levels over an extended period of time. When a drug is administered intermittently, the therapeutic concentration is often exceeded for some period of time, and then rapidly drops below effective levels. Excessively high concentrations are a major cause of side effects, while subtherapeutic concentrations are ineffective.
2. *Greater Patient and Caregiver Convenience.* We believe our BCD Systems may permit once-daily dosing for certain drugs that are currently required to be administered several times daily, thereby promoting compliance with dosing regimens. Patient non-compliance with dosing regimens has been associated with increased costs by prolonging treatment duration, increasing the likelihood of secondary or tertiary disease manifestation and contributing to over-utilization of medical personnel and facilities. By improving patient compliance, providers and third-party payers may reduce unnecessary expenditures and improve therapeutic outcomes.
3. *Expanding the Types of Drugs Capable of Oral Delivery.* Some drugs, including certain proteins (complex organic compounds of high molecular weight containing numerous amino acids) and peptides (low molecular weight compounds consisting of two or more amino acids), because of their large molecular size and susceptibility to degradation in the GI tract, must currently be administered by injection or by continuous infusion, which is typically done in a hospital or other clinical setting. We believe our BCD Systems may permit some of these drugs to be delivered orally and/or transdermally without the necessity of visiting a hospital or clinic.
4. *Proprietary Reformulation of Generic Products.* We believe our BCD Systems offer the potential to produce improved proprietary formulations of off-patent drugs, differentiated from the existing generic products by reduced dosing requirements, improved efficacy, decreased toxicity or additional indications. The potential attraction here is the possibility to repatent existing drugs due to the adaptation of our delivery systems, which may differentiate the new drug from the existing drug.

## **DISTRIBUTION METHODS OF THE PRODUCTS AND SERVICES**

We intend to have the BCD Systems used with as many pharmaceutical products as possible. Our primary strategy is to establish collaborative relationships with pharmaceutical and biotechnology companies to develop improved therapeutic products utilizing our BCD Systems technology. The products will be jointly developed, with the collaborative partner having primary responsibility to clinically test, manufacture, market and sell the product, and we retaining ownership of our technologies. We believe that our partnering strategy will enable us to reduce our cash requirements while developing a larger potential product portfolio. By providing new formulations of existing products using the BCD Systems, we believe it will not only be able to offer our partners improved products but also may provide them with the ability to extend the life of their patents on such products, especially attractive to pharmaceutical companies whose patents on existing products are close to expiration. Collaborations with pharmaceutical and biotechnology companies are expected to provide near-term revenues from sponsored development activities and future revenues from license fees and royalties relating to the sale or sub-licensing of our products.

We also intend to develop over-the-counter (OTC) and/or off-patent drug products utilizing our BCD Systems, either independently or jointly by entering into collaborative partnerships with pharmaceutical, biotechnology or other healthcare companies. To reduce costs and time-to-market, we intend to select those products that treat indications with clear-cut clinical end-points and that are reformulations of existing compounds already approved by the FDA. We believe that products utilizing the BCD Systems will provide favorable product differentiation in the highly competitive generic and OTC drug product markets at costs below those of other drug delivery systems, thereby enabling us and our collaborative partners to compete more effectively in marketing improved off-patent and OTC drug products. We are also seeking to establish alliances with overseas sales and marketing partners for the initial sale of our future generic products. We believe that due to the more favorable regulatory environments in some foreign countries, we may be able to generate revenues from these markets while awaiting FDA approval in the United States.

## **COMPETITION**

There are other companies that have oral drug delivery technologies that compete with the BCD Systems. The competitors have oral tablet products designed to release the incorporated drugs over time. Each of these companies has a patented technology with attributes different from ours, and in some cases with different sites of delivery to the GI tract. We believe that we are the only drug delivery company that is currently using polymeric based colloidal dispersion controlled release technologies to develop products for oral and transdermal drug delivery for enhanced solubility and bioavailability for drugs that are not readily water soluble. We believe that this combination of oral and transdermal drug delivery technologies differentiates us from other oral drug delivery companies and will enable us to attract pharmaceutical companies to incorporate their proprietary drugs into the BCD Systems and also to differentiate any OTC and/or off-patent drugs that utilize the BCD Systems from those of other drug delivery companies.

Competition in the areas of pharmaceutical products and drug delivery systems is intense and this is expected to continue in the future. Competing technologies may prove superior, either generally or in particular market segments, in terms of factors such as cost, consumer satisfaction or drug delivery profile. Our principal competitors in the business of developing and applying drug delivery systems have substantially greater financial, technological, marketing, personnel and research and development resources than we do. In addition, we may face competition from pharmaceutical and biotechnology

companies that may develop or acquire drug delivery technologies. Many of our potential collaborative partners have devoted and are continuing to devote significant resources in the development of their own drug delivery systems and technologies. Products incorporating our technologies will compete both with products employing advanced drug delivery systems and with products in conventional dosage forms. New drugs or future developments in alternate drug delivery technologies may provide therapeutic or cost advantages over any potential products that utilize the BCD Systems. There can be no assurance that developments by others will not render any potential products utilizing the BCD Systems non-competitive or obsolete. In addition, our competitive success will depend heavily on entering into collaborative relationships on reasonable commercial terms, commercial development of products incorporating the BCD Systems, regulatory approvals, and protection of intellectual property and market acceptance of such products.

## **PATENTS, TRADEMARKS AND PROPRIETARY RIGHTS**

It is our policy to file patent applications in the United States and certain foreign jurisdictions for any drug formulations and any drug delivery methodologies that we consider commercially viable. We have four United States patent pending applications as follows: “Colloidal solid lipid vehicle for pharmaceutical application” and “Hybrid Lipid-Polymer Nanoparticulate Delivery Composition” for the use of Rifampin, Zysolyn, Vansolyn & Ocusolyn to treat Tuberculosis and other infectious diseases, “Topical composition for acne treatment” and “Stabilization of benzoyl peroxide in solution” for the use of NuProm to treat acne. We have also applied for patents in Mexico, Japan and China under the title “Vehicle for topical delivery of anti-inflammatory compounds” for the use of Indaflex to increase efficacy of non steroidal anti-inflammatory drugs which are still pending.

We currently have three issued United States patents as follows: “Toothpaste comprising bioadhesive submicron emulsion for improved delivery of antibacterial and anticaries agents” for the use of certain oral care products that have never been developed. This patent was issued on September 12, 2000 and will expire on June 17, 2019. “Vehicle for topical delivery of anti-inflammatory compounds” for the use of Indaflex to increase efficacy of non steroidal anti-inflammatory drugs. This patent was issued on November 21, 2006 and will expire on September 29, 2021. “Stabilization of benzoyl peroxide in solution”. This patent was issued on December 26, 2006 and will expire on December 21, 2021.

No assurance can be given that our patent applications will be approved or that any issued patents will provide competitive advantages for the BCD System or our technologies or will not be challenged or circumvented by competitors. With respect to any patents which may be issued from our applications, there can be no assurance that claims allowed will be sufficient to protect our technologies. Patent applications in the United States are maintained in secrecy until a patent is issued and we cannot be certain that others have not filed patent applications for technology covered by our pending applications or that we were the first to file patent applications for such technology. Competitors may have filed applications for, or may have received patents and may obtain additional patents and proprietary rights relating to, compounds or processes that may block our patent rights or compete without infringing our patent rights. In addition, there can be no assurance that any patents issued to us will not be challenged, invalidated or circumvented, or that the rights granted thereunder will provide proprietary protection or commercial advantage to us.

We also rely on trade secrets and proprietary know-how that we seek to protect, in part, through confidentiality agreements with employees, consultants, collaborative partners and others. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any such breach or that our trade secrets will not otherwise become known or be independently developed by competitors. Although potential collaborative partners, research partners and consultants are not given access to our proprietary trade secrets and know-how until they have executed confidentiality agreements,

these agreements may be breached by the other party or may otherwise be of limited effectiveness or enforceability.

### **Trademarks**

We have registered the following trademarks in Canada: “BCD”, “Flexogan”, “Indaflex”, “AlphaRx”, “PhytoScience”, “NuProm”, and “LipoLette”. We have registered the following trademarks in the United States: “Flexogan”, “Indaflex”, “LipoBloc”, “NuProm”, “Oralife”. We have also registered “Flexogan” in the Peoples’ Republic of China. In connection with our Internet web site, we have registered with Network Solutions, Inc., the internet domain name "AlphaRx.com" for our corporate website.

### **Proprietary Information**

Much of our technology is dependent upon the knowledge, experience and skills of key scientific and technical personnel. To protect the rights to our proprietary technology, our policy requires all employees and consultants to execute confidentiality and non-competition agreements that prohibit the disclosure of confidential information to anyone outside the Company. These agreements also require disclosure and assignment to us of discoveries and inventions made by such persons while devoted to Company activities.

### **MANUFACTURING, MARKETING AND SALES**

We do not have and do not intend to establish in the foreseeable future internal manufacturing capabilities. Rather, we intend to use the facilities of our collaborative partners or those of contract manufacturers to manufacture products using the BCD Systems. Our dependence on third parties for the manufacture of products using the BCD Systems may adversely affect our ability to develop and deliver such products on a timely and competitive basis. There may not be sufficient manufacturing capacity available to us when, if ever, it is ready to seek commercial sales of products using the BCD Systems. In addition, we expect to rely on our collaborative partners or to develop distributor arrangements to market and sell products using the BCD Systems. We may not be able to enter into manufacturing, marketing or sales agreements on reasonable commercial terms, or at all, with third parties. Failure to do so would have a material adverse effect on us.

Applicable good manufacturing practices (“GMP”) requirements and other rules and regulations prescribed by foreign regulatory authorities will apply to the manufacture of products using the BCD Systems. We will depend on the manufacturers of products using the BCD Systems to comply with current good manufacturing practices (“cGMP”) and applicable foreign standards. Any failure by a manufacturer of products using the BCD Systems to maintain cGMP or comply with applicable foreign standards could delay or prevent their commercial sale. This could have a material adverse effect on us.

We rely on Canadian Custom Packaging Inc., Patheon Inc. and Andromaco to manufacture our products on a when needed basis. There are no outstanding manufacturing orders or any conditional obligations outstanding to any of these parties.

We are not actively pursuing the direct sales and marketing of our market ready products or potential products due primarily to our limited amount of financial resources. We do retain marketing and sales agents from time to time on an as needed basis on a commission or flat fee basis and other incentives.

### **GOVERNMENT REGULATION**

We are subject to regulation under various federal laws regarding pharmaceutical products and also various Canadian federal and provincial laws regarding, among other things, occupational safety, environmental protection, hazardous substance control and product advertising and promotion. In connection with our research and development activities, AlphaRx is subject to federal, provincial and local laws, rules, regulations and policies governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials and wastes. We believe that we have complied with these laws and regulations in all material respects and we have not been required to take any action to correct any material non-compliance.

In the United States, pharmaceutical products, including any drugs utilizing the BCD System, are subject to rigorous regulation by the FDA. If a company fails to comply with applicable requirements, it may be subject to administrative or judicially imposed sanctions such as civil penalties, criminal prosecution of our officers and employees, injunctions, product seizure or detention, product recalls, total or partial suspension of production, FDA withdrawal of approved applications or FDA refusal to approve pending new drug applications, premarket approval applications, or supplements to approved applications.

Prior to commencement of clinical studies involving human beings, preclinical testing of new pharmaceutical products is generally conducted on animals in the laboratory to evaluate the potential efficacy and the safety of the product. The results of these studies are submitted to the FDA as a part of an IND application, which must become effective before clinical testing in humans can begin. Typically, clinical evaluation involves a time consuming and costly three-phase process.

OTC products that comply with monographs issued by the FDA are subject to various FDA regulations such as cGMP requirements, general and specific OTC labelling requirements (including warning statements), the restriction against advertising for conditions other than those stated in product labelling, and the requirement that in addition to approved active ingredients OTC drugs contain only safe and suitable inactive ingredients. OTC products and manufacturing facilities are subject to FDA inspection, and failure to comply with applicable regulatory requirements may lead to administrative or judicially imposed penalties. If an OTC product differs from the terms of a monograph, it will, in most cases, require FDA approval of an NDA for the product to be marketed.

In Canada and the United States, the manufacture and sale of pharmaceutical products is rigorously controlled by the Canadian Health Products and Food Branch (“HPFB”) and the United States Food and Drug Administration (“FDA”), respectively. The laws of both countries require appropriate manufacturing facilities and carefully controlled research, manufacturing and testing of products. Pharmaceutical companies must establish control over manufacturing and testing of their products, through the use of good manufacturing practices (“GMP”) before being allowed to market their products. The safety and efficacy of a new product must be demonstrated through clinical trials of the drug carried out under procedures acceptable to the HPFB and FDA.

In Canada, new *in vivo* products must pass through a number of testing stages including pre-clinical testing and clinical trial testing. Pre-clinical testing usually involves evaluating the product’s pharmacokinetics, pharmacology and toxicology in animals. Successful results (that is, potentially valuable pharmacological activity combined with an acceptable level of toxicity) can lead to Investigational New Drug (“IND”) status. This enables the manufacturer of the new product to begin clinical trials on humans.

In order to achieve IND status in Canada, a clinical trial application (“CTA”) must be filed with the HPFB. The submission must contain specified information including the results of the preclinical tests completed at the time of the submission together with any available data on testing in humans. In addition, since the method of manufacture may affect the efficacy and safety of a product, information on

manufacturing methods and standards and the stability of the substance and dosage form must be presented to enable the HPFB to evaluate whether the product that may eventually be sold to the public has been shown to be comparable to that determined to be effective and safe in the clinical trials. Production methods and quality control procedures must be in place to ensure that a product meets its specifications for identity and purity and other parameters for assessing product quality. The submission must also provide details on the testing that is to be performed, including who will be performing the testing and where it will be performed.

Once the HPFB clears a CTA, clinical trials can begin. Clinical trials are generally carried out in three phases. Phase I involves studies to evaluate safety in humans. The new product is administered to consenting subjects to determine the safety profile and prevalence of adverse side effects. In many Phase I studies the effects of dosing and scheduling are also studied. Phases II and III involve efficacy studies. Phase II trials seek clues to clinical efficacy, while furthering the safety profile in patients with the condition the product is intended to treat. In Phase III, controlled clinical trials are conducted in which the product is administered to a large number of patients who may receive benefit from the product. In Phase III, the effectiveness of the new product is usually compared to that of a control or accepted methods of treatment or best standard of care, in the anticipation that significant clinical efficacy can be demonstrated. After clearance of the initial CTA application, the manufacturer has certain reporting responsibilities to the HPFB.

If the clinical studies are successful, the manufacturer submits a New Drug Submission (“NDS”) (referred to in the United States as a New Drug Application or “NDA” or Biologics Licence Application or “BLA”) to the HPFB for marketing approval. The NDS contains all information pertaining to the proposed claims about the product’s performance including the results of the pre-clinical and clinical studies. Information about a substance contained in an NDS includes its proper name, its chemical name, details on its method of manufacturing and purification and its biological, pharmacological and toxicological properties. The NDS also gives information about the dosage form of the product including the quantitative listing of all ingredients used in the formulation, its method of manufacture, packaging and labelling, the results of stability tests, its diagnostic or therapeutic claims and side effects as well as details of the clinical studies to support the safety and efficacy of the product. All aspects of the NDS are critically reviewed by the HPFB. Where an NDS is found satisfactory and the manufacturing establishment(s) is found satisfactory a Notice of Compliance is issued permitting the substance to be sold.

The controls of a new product do not cease once it is on the market. For example, a manufacturer of a new product must report any new information received concerning serious side effects, including the failure of the product to produce desired effects. In addition, if it is determined to be in the interest of the public health, a Notice of Compliance for a new product may be suspended and the new product may be removed from the market.

The requirements for *in vivo* products outlined for Canada are similar to those in all major pharmaceutical markets and while the tests carried out for Canada are likely to be acceptable for all other countries, supplementary testing may be requested by individual regulatory authorities during their assessment of any submissions by the Company.

In the United States, a manufacturer must prepare and file an IND submission with the FDA before testing can begin on humans. An application contains a variety of information about the products, including the results of previous animal and human studies, the basic chemistry of the product and manufacturing information. The submission also provides details on the testing that is to be performed, including who will be performing the testing and where it will be performed. As in Canada, human studies are characterized as Phase I, Phase II or Phase III studies. Phase I studies focus on the safety

profile of the product, Phase II seeks clues as to efficacy, and Phase III seeks to statistically confirm in larger trials the efficacy of the product.

After acceptance of the initial IND application, the manufacturer has certain reporting responsibilities to the FDA including the submission of yearly updates on the product's safety. As the testing progresses into Phases II and III, the focus shifts to the efficacy of the product and the clinical studies that will enable the manufacturer to receive FDA approval for the marketing of the product.

The process of completing clinical testing and obtaining regulatory approval for a new product is, in general, likely to take a number of years and require the expenditure of substantial resources. If an application is submitted, there can be no assurance that the HPFB or FDA will review and approve the marketing application in a timely manner. Even after initial approval has been obtained, further studies may be required by an agency to provide additional data or may be voluntarily conducted to gain approval for the use of a product as a treatment for clinical indications other than those for which the product was initially tested. Also, the HPFB and FDA require post-market surveillance programs to monitor a product's side effects. Results of post-marketing programs may limit or expand the further marketing of products. It is not possible to accurately predict the time required for new product approval or the extent of clinical testing and documentation that may be required by regulatory authorities. Any delays in obtaining, or failing to obtain, regulatory approvals would significantly delay the development of markets and the receipt of revenues from the sale of these products.

In addition to the regulatory product approval framework, pharmaceutical companies are subject to regulation under provincial, state and federal law, including requirements regarding occupational safety, laboratory practices, the use, handling and disposition of radioactive materials, environmental protection and hazardous substance control, and may be subject to other present and future local, provincial, state, federal and foreign regulation, including possible future regulation of the biotechnology field.

Furthermore, even if required FDA approval has been obtained with respect to a product, foreign regulatory approval of a product must also be obtained prior to marketing the product internationally. Foreign approval procedures vary from country to country and the time required for approval may delay or prevent marketing. In certain instances our collaborative partners or we may seek approval to market and sell certain of our products outside of the U.S. before submitting an application for U.S. approval to the FDA. The regulatory procedures for approval of new pharmaceutical products vary significantly among foreign countries. The clinical testing requirements and the time required to obtain foreign regulatory approvals may differ from that required for FDA approval. Although there is now a centralized EU approval mechanism in place, each EU country may nonetheless impose our own procedures and requirements, many of which are time consuming and expensive, and some EU countries require price approval as part of the regulatory process. Thus, there can be substantial delays in obtaining required approval from both the FDA and foreign regulatory authorities after the relevant applications are filed, and approval in any single country may not be a meaningful indication that the product will thereafter be approved in another country.

The foreign regulatory approval process includes all of the risks associated with obtaining FDA approval set forth above, and approval by the FDA does not ensure approval by the health authorities of any other country, nor does the approval by foreign health authorities ensure approval by the FDA.

We presently have a licensed manufacturer and distributor in Mexico - Andromaco. We rely on Andromaco to complete, maintain and adhere to the required regulatory processes and procedures needed to manufacture and distribute our product in Mexico. Andromaco is a large pharmaceutical manufacturer in Mexico with more than 50 years of experience in manufacture, marketing and distribution of drugs. We

will attempt to complete licensing and distribution arrangements in foreign countries and in the United States with larger, experienced organizations to ensure that regulatory processes and country-specific regulations are being observed and maintained.

## **RESEARCH AND DEVELOPMENT**

We conduct our research and development activities in house and through collaborative arrangements with universities, contract research organizations and independent consultants. We are also dependent upon third parties to conduct clinical studies, and to obtain FDA, Health Canada and other regulatory approvals. We conduct all of our fundamental research and development activities in Canada. We conduct animal testing, and other specialized research and development activities in various countries via third parties depending primarily on the most competitive pricing we can obtain.

We anticipate incurring significant development expenditures in the future as we continue our efforts to develop our present technologies and new formulations and as we begin to research other technologies and to commence or expand clinical studies of certain products.

## **INSURANCE**

We maintained product liability insurance until September 30, 2008 in the amount of CAD \$1,000,000. As we no longer directly sell, market, or manufacture any products we determined that product liability insurance is no longer necessary. We have never had any adverse legal or other consequences from either Flexogan sales, nor from our Phase I and II clinical trials on Indaflex. Our licensees do have product liability insurance based on their commercial activities. Should we determine to commence direct sales or production of any of our products or product candidates, product liability insurance will be obtained accordingly. Any clinical trials require separate insurance coverage related specifically to those trials. We could still be indirectly subject to product liability claims.

We have property insurance coverage, materials in transit, kidnap and ransom, and business interruption insurance coverage. Although we deem the coverage amounts to be adequate to protect our interests, there is no assurance that the insurance coverage would be adequate to protect us against all potential liabilities. We do not carry directors and officers' liability insurance due to the prohibitive cost and limited coverage this insurance offers.

## **EMPLOYEES**

We have six full time employees and two part time consultants on staff. None of our staff is represented by a collective bargaining agreement, nor have we experienced any work stoppage. We believe that our relations with our staff are good.

## **RISK FACTORS**

We provide the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business and our products. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could also adversely affect us.

**We have significant historical losses and may continue to incur losses in the future.**

We have incurred annual operating losses since our inception. As a result, at September 30, 2009 we had an accumulated deficit of approximately \$ 18,061,820. Our revenues for the years ended September 30, 2009 and September 30, 2008 were \$377,480 and \$97,499 respectively. Our revenues have not been sufficient to sustain our operations. Revenues for 2009 consisted of royalty revenues from one customer and consulting revenues and in 2008 revenues consisted of royalty revenues. In order to achieve profitability our revenue streams will have to increase and there is no assurance that revenues can increase to such a level. We may never be profitable.

### **We are subject to currency fluctuations, which may affect our results**

The majority of our expenses and some of our debt are in Canadian dollars, while our revenues are primarily U.S. dollars. We also incur expenses in Hong Kong dollars related to our Far East subsidiaries. The fluctuation of the Canadian dollar and Hong Kong dollar vis a vis the U.S. dollar could materially impact our operating results and financial position.

### **We will require additional financing to sustain our operations, and our ability to secure additional financing is uncertain.**

We may be unable to raise on acceptable terms, if at all, the substantial capital resources necessary to conduct our operations. If we are unable to raise the required capital, we may be forced to limit some or all of our research and development programs and related operations, curtail commercialization of our product candidates and, ultimately, cease operations. Our future capital requirements will depend on many factors, including:

- . continued scientific progress in our research programs;
- . progress with preclinical studies and clinical trials;
- . the magnitude and scope of our research and development programs;
- . our ability to establish corporate partnerships and licensing arrangements;
- . the time and costs involved in obtaining regulatory approvals;
- . the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims;
- . the potential need to develop, acquire or license new technologies and products;
- . the continued ability to source loans from our private lenders;
- . our efforts to sell and market our products through licensees, distributors and other partners; and
- . other factors beyond our control.

At September 30, 2009, we had a working capital deficiency of approximately \$978,820 as compared to a working capital deficiency of \$686,919 as at September 30, 2008. The independent auditors' report for the year ended September 30, 2009 includes an explanatory paragraph stating that our recurring losses from operations and working capital levels raise substantial doubt about our ability to continue as a going concern.

We believe that satisfying our long-term capital requirements will require at least the successful commercialization of one of our over-the-counter health care products or one of our prescription drug candidates. Our products may never become commercially successful.

### **We are subject to industry and government regulation**

All of our products, clinical trials, and certain research and development initiatives are regulated by Canadian health authorities, and if applicable, the FDA in the United States, and similar governing bodies

in Mexico, China and elsewhere. Any changes in regulatory requirements, depth and breadth of clinical trials, provisions, statutes, or regulations could adversely impact the cost and duration of our research and development, product completion and related operations.

**We face significant competition in the over-the-counter health care market.**

The over-the-counter health care market is highly competitive and is characterized by the frequent introduction of new products, including the migration of prescription drugs to the over-the-counter market, often accompanied by major advertising and promotional support. These introductions may adversely affect our business, especially because we compete in categories in which product sales are highly influenced by advertising and promotions. Our competitors include large over-the-counter pharmaceutical companies such as Pfizer, Inc. and Johnson & Johnson, consumer products companies such as Procter & Gamble Co., many of which have considerably greater financial and other resources than we do and are not as highly leveraged as we are. These competitors are thus better positioned to spend more on research and development, employ more aggressive pricing strategies, utilize greater purchasing power, build stronger vendor relationships and develop broader distribution channels than us. In addition, our competitors may use aggressive spending on trade promotions and advertising as a strategy for building market share, at the expense of their competitors, including us. If we are unable to introduce new and innovative products that are attractive to consumers, or are unable to allocate sufficient resources to effectively advertise and promote our products so that they achieve wide spread market acceptance, we may not be able to compete effectively, and our operating results and financial condition may be adversely affected.

**Our competitors may include large pharmaceutical companies with superior resources.**

We are engaged in a rapidly changing and highly competitive field. To date, we have concentrated our efforts primarily on one pharmaceutical product -- Indaflex -- for treating osteoarthritis and other inflammatory indications. Like the market for any pharmaceutical product, the market for treating arthritis and these other indications has the potential for rapid, unpredictable and significant technological change. Competition is intense from specialized biotechnology companies, major pharmaceutical and chemical companies and universities and research institutions. We currently have no products approved for sale in the U.S. If we are successful in obtaining approval for one of our products, our future competitors will have substantially greater financial resources, research and development staffs and facilities, and regulatory experience than we do. Major companies in the field of osteoporosis treatment include Novartis, Wyeth, Merck, Eli Lilly, Aventis, and Procter & Gamble Co. Any one of these potential competitors could, at any time, develop products or a manufacturing process that could render our technology or products non-competitive or obsolete.

**Our success depends upon our ability to protect our intellectual property rights.**

We filed applications for U.S. patents relating to proprietary drug delivery technologies and formulations that we have invented in the course of our research. To date, three U.S. patents have been issued and other applications are pending. We have also made patent application filings in selected foreign countries. We face the risk that any of our pending applications will not issue as patents. In addition, our patents may be found to be invalid or unenforceable. Our business is also subject to the risk that our issued patents will not provide us with significant competitive advantages if, for example, a competitor were to independently develop or obtain similar or superior technologies. To the extent we are unable to protect our patents and patent applications, our investment in those technologies may not yield the benefits that we expect.

We also rely on trade secrets to protect our inventions. Our policy is to include confidentiality and non-disclosure obligations in all research contracts, joint development agreements and consulting relationships that provide access to our trade secrets and other know-how. However, parties with confidentiality obligations could breach their agreements causing us harm. If a confidentiality or non-disclosure obligation were to be breached, we may not have the financial resources necessary for a legal challenge. If licensees, consultants or other third parties use technological information independently developed by them or by others in the development of our products, disputes may arise from the use of this information and as to the ownership rights to products developed using this information. These disputes may not be resolved in our favour.

We are not aware of infringing on any third party's patents, nor are we aware of any third party infringing on any of our patents or patent applications.

**Our technology, clinical trials, or products could give rise to product liability claims.**

Our business exposes us to the risk of product liability claims that are a part of human testing, manufacturing and sale of pharmaceutical products. The administration of drugs to humans, whether in clinical trials or commercially, can result in product liability claims even if our products are not actually at fault for causing an injury. Furthermore, our products may cause, or may appear to cause, adverse side effects or potentially dangerous drug interactions that we may not learn about or understand fully until the drug is actually manufactured and sold. Product liability claims can be expensive to defend and may result in large judgments against us. Even if a product liability claim is not successful, the adverse publicity, time, and expense involved in defending such a claim may interfere with our business. We may not have sufficient resources to defend against or satisfy these claims. Even though our licensees are required to have product liability insurance we may still be subject to product liability claims.

**We may be unable to retain key employees or recruit additional qualified personnel.**

Because of the specialized scientific nature of our business, we are highly dependent upon qualified scientific, technical, and managerial personnel. There is competition for qualified personnel in our business. Therefore, we may not be able to attract and retain the qualified personnel necessary for the development of our business. The loss of the services of existing personnel, as well as the failure to recruit additional key scientific, technical, and managerial personnel in a timely manner would harm our research and development programs and our business.

**The market price of our Common Stock is volatile.**

The market price of our Common Stock has been, and we expect it to continue to be, highly unstable. Factors, including our announcement of technological improvements or announcements by other companies, regulatory matters, research and development activities, new or existing products or procedures, signing or termination of licensing agreements, concerns about our financial condition, operating results, litigation, government regulation, developments or disputes relating to agreements, patents or proprietary rights, and public concern over the safety of activities or products have had a significant impact on the market price of our stock. We expect such factors to continue to impact our market price for the foreseeable future.

Our Common Stock is classified as a "penny stock" under SEC rules which may make it more difficult for our stockholders to resell our Common Stock.

Our Common Stock is traded on the OTC Bulletin Board. As a result, the holders of our Common Stock may find it more difficult to obtain accurate quotations concerning the market value of the stock. Stockholders also may experience greater difficulties in attempting to sell the stock than if it was listed on a stock exchange or quoted on the Nasdaq National Market or the Nasdaq Small-Cap Market. Because AlphaRx Common Stock is not traded on a stock exchange or on Nasdaq, and the market price of the Common Stock is less than \$5.00 per share, the Common Stock is classified as a "penny stock." Rule 15g-9 of the Securities Exchange Act of 1934 imposes additional sales practice requirements on broker-dealers that recommend the purchase or sale of penny stocks to persons other than those who qualify as an "established customer" or an "accredited investor." This includes the requirement that a broker-dealer must make a determination that investments in penny stocks are suitable for the customer and must make special disclosures to the customer concerning the risks of penny stocks. Application of the penny stock rules to our Common Stock could adversely affect the market liquidity of the shares, which in turn may affect the ability of holders of our Common Stock to resell the stock.

We have a significant number of options and warrants outstanding that could be exercised in the future. Subsequent resales of these and other shares could cause the Company's stock price to decline. This could also make it more difficult to raise funds at acceptable levels, via future securities offerings.

### **Lack of Independent Directors**

We cannot guarantee that our Board of Directors will have a majority of independent directors in the future. In the absence of a majority of independent directors, our executive officers, which are also principal stockholders and directors, could establish policies and enter into transactions without independent review and approval thereof. This could present the potential for a conflict of interest between the Company and its stockholders generally and the controlling officers, stockholders or directors.

### **Ownership of our Common Stock by Current Officers and Directors**

The present officers and directors own approximately 26.92% of the outstanding shares of Common Stock, and are therefore no longer in a position to elect all of our Directors and otherwise control the Company. Any single shareholder or the management group as a whole can no longer control the Company. Stockholders have no cumulative voting rights. (See Security Ownership of Certain Beneficial Owners and Management)

## **ITEM 2. DESCRIPTION OF PROPERTY**

We lease approximately 2,930 square feet in Markham, Ontario, on a month-to-month basis. Present leasing costs are approximately \$3,600 a month. We believe that our existing properties are sufficient for our administrative, research and development needs for the foreseeable future.

## **ITEM 3. LEGAL PROCEEDINGS**

There are no legal proceedings either against or in favor of the Company at the present time.

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

At our Annual General Meeting held November 26, 2008 our stockholders voted in favour of re-electing the board of directors, re-appointing Schwarz Levitsky Feldman LLP as our auditors and revising the

stock option incentive plan for our employees, directors and advisors. Details of the Stock Option Incentive Plan are described below under Part II.

## **PART II**

### **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

#### **MARKET INFORMATION**

Our Common Stock is traded over-the-counter and its quotations are carried in the Electronic Bulletin Board of the National Association of Securities Dealers, Inc.

The following table sets forth the range of high and low bid quotations for our Common Stock for the periods indicated from sources we deem reliable.

		High \$	Low \$
Fourth Quarter	(Ended September 30, 2009)	0.19	0.10
Third Quarter	(Ended June 30, 2009)	0.12	0.03
Second Quarter	(Ended March 31, 2009)	0.04	0.02
First Quarter	(Ended December 31, 2008)	0.06	0.02
Fourth Quarter	(Ended September 30, 2008)	0.11	0.06
Third Quarter	(Ended June 30, 2008)	0.15	0.05
Second Quarter	(Ended March 31, 2008)	0.26	0.11
First Quarter	(Ended December 31, 2007)	0.28	0.08

The foregoing quotations reflect inter-dealer prices without retail mark-up, markdown or commissions and may not necessarily represent actual transactions.

Records of our stock transfer agent indicate that as of December 1, 2009 there were approximately 73 record holders of our Common Stock. This does not include an indeterminate number of stockholders who may hold their shares in "street name" or in nominee form.

#### **DIVIDENDS**

We have never declared any cash dividends and do not anticipate paying such dividends in the near future. We anticipate all earnings, if any, over the next twelve (12) to twenty - four (24) months will be retained for working capital purposes. Any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon our results of operations, financial conditions, contractual restrictions, and other factors deemed relevant by the Board of Directors. We are under no contractual restrictions in declaring or paying dividends to our common stockholders.

The future sale of presently outstanding "unregistered" and "restricted" Common Stock of the Company by present members of management and persons who own more than five percent of the outstanding voting securities of the Company may have an adverse effect on the public market for our Common Stock.

## **STOCK OPTION PLANS**

At the Annual General Meeting of stockholders held on November 26, 2008 a majority of stockholders approved a new stock option plan - the 2008 Stock Incentive Plan. This plan is generally more restrictive than the preceding plans were. Major amendments to the existing plans reflected in the 2008 Stock Incentive Plan include: (i) combining the 2004 and 2006 Plans for ease of administration; (ii) providing a cap for the number of options to be issued at 22,000,000; (iii) providing guidelines for exercise prices such that the exercise price of any newly granted option is never less than the market value or in the case of a 10%+ holder, never less than 110% of the market value on the date of grant; (iv) providing for a maximum term of 5 years for any option granted; (v) provide for a vesting schedule whereby vesting must occur over at least 18 months with no more than 1/6<sup>th</sup> of the options granted vesting in any 3 month period; (vi) providing for the maximum number of options to be granted to any one individual in any 12 month period to be no more than 5% of the issued and outstanding common stock, and (vii) providing for a maximum number of options to be granted to any Investor Relations party to be no more than 2% of the issued and outstanding common stock. Finally, in accordance with the existing Plan we can grant no more than 4,310,000 options regardless of how many options may be exercised or expire.

No options were granted nor were any exercised during the year ended September 30, 2009. There remain 14,260,000 options to purchase shares of Common Stock as of September 30, 2009.

During fiscal 2008 employees, officers and consultants exercised a total of 3,430,000 options at an average exercise price of approximately \$0.08 per share and resulting in \$274,750 in cash proceeds to the Company. Of these options 700,000 were from the 2000 Plan and had a weighted remaining contractual life of 2.5 years when exercised and 2,730,000 were from the 2004 Plan and had a weighted remaining contractual life of 7.8 years when exercised. Immediately thereafter the remaining options in the 2000 Plan and 2003 Plan were cancelled, with the agreement of the option holders. In addition, and pursuant to an application for listing on the Toronto Venture Exchange, the Company cancelled a total of 7,660,000 options with the agreement of the option holders during fiscal 2008. Also during fiscal 2008, with the agreement of the option holders, the option expiry date for all remaining 2004 Plan options was accelerated to June 30, 2012. All options now expire on or before June 30, 2012.

The intrinsic value of outstanding stock options defined, as the difference between the exercise price and the closing price of the stock on September 30, 2009, for those options that are “in the money” was \$1,800. (September 30, 2008 intrinsic value of nil since no option exercise price was below the closing price on that date).

## **RECENT SALES OF UNREGISTERED SECURITIES**

We did not issue any shares of Common Stock (the only class shares we have) during fiscal 2009. There remain 92,371,192 shares of Common Stock issued and outstanding as of September 30, 2009.

During fiscal 2008, on November 14, 2007 we issued 5,000,000 units consisting of 5,000,000 shares of unregistered Common Stock and warrants to purchase 5,000,000 shares of unregistered Common Stock at an exercise price of \$0.10. We received gross proceeds of \$500,000 before commission of 5% or \$25,000. The warrants are exercisable at \$0.10 per share and expire on December 31, 2009.

In the interest of increased transparency we also issued the following registered shares of Common Stock during the year ended September 30, 2008:

On December 27, 2007 officers, directors and consultants exercised options to purchase 3,430,000 shares of Common Stock at an average exercise price of \$0.08 per share;

Also on December 27, 2007 Michael Lee (CEO) exercised warrants to purchase 1,862,228 shares of Common Stock at an exercise price of \$0.10 per share;

On February 28, 2008 warrants to purchase 875,000 shares of Common Stock were exercised at a price of \$0.10 per share.

## **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

The following discussion and analysis should be read in conjunction with the Financial Statements and Notes included in Item 7 of this report. Except for the historical information contained herein the foregoing discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those projected in the forward-looking statements discussed herein.

### **General**

AlphaRx is a drug delivery company specializing in the development of innovative therapeutic products for the pharmaceutical and consumer health care market. Our core competence is in the development of novel drug formulations for therapeutic molecules or compounds that have exhibited poor gastro intestinal absorption due to poor solubility or have yet be administrable to the human body with an acceptable delivery method. Our drug delivery system is versatile and offers significant flexibility in the development of suitable dosage formulations. Our delivery systems can be adopted to administer drugs orally, topically, or parenterally in order to meet the requirements of specific drug molecules.

Please refer to the table under Product Pipeline, Item 1 for the current status of our product research and development activities.

The costs incurred for each of these initiatives to date cannot be readily determined because (i) there is no clear distinction between initiatives in order to be able to differentiate between them; (ii) all initiatives have a common goal and that is to adopt our Bioadhesive Colloidal Dispersion (“BCD”) drug delivery system to the specific drug in order to improve that drug’s effectiveness; and (iii) we do not maintain a time control system to differentiate research and development activities.

The nature, timing and estimated costs to complete a project and anticipated completion dates cannot be estimated because: (i) the nature of research is experimental and we could encounter unforeseen situations which could significantly delay project completion or require us to abandon the project; (ii) timing to complete a project depends, to a certain extent, on financial resources and we cannot predict with any degree of certainty that financial resources will be available when needed to complete any specific project and (iii) cost estimates cannot be predicted with any acceptable degree of accuracy due to unforeseen issues arising during the clinical stages or the approval stages of any specific initiative.

If we cannot complete our research and development initiatives on a timely basis consequences to our operations could be significant to the point where the initiative would be delayed or even abandoned. We would also face the risk of competitors developing the same or similar products and being first to market. Finally, our failure to develop products on a timely basis could substantially impair our ability to generate revenues and materially harm our financial position.

We cannot predict the timing of material net cash inflows from significant projects due to a number of factors including (i) availability of financial resources required to market a new product, (ii) our lack of experience in bringing a new product to market successfully and gaining market share; (iii) competitors’ products and the nature and timing of their marketing initiatives.

We intend to continue investing in the further development of our drug delivery technologies and to actively seek collaborators and licensees to accelerate the development and commercialization of products incorporating our drug delivery systems. Depending upon a variety of factors, including collaborative arrangements, available personnel and financial resources, we will conduct or fund clinical trials on such products and will undertake the associated regulatory activities.

## **Recent Developments**

We entered into a Collaboration agreement during August 2009 with Venturepharm Group, a China based company that provides world-class services for the biotechnology and pharmaceutical industries. Our objectives include the adaptation of our delivery technology to improve the quality and efficacy of pharmaceutical products selected for development in China. Venturepharm Group agrees to provide us with lab space, manufacturing facilities, regulatory services and distribution services all at a competitive rate.

We also signed a collaboration and licensing agreement with Riso Pharma Technology in September 2009. Under the agreement Risa Pharma will undertake development and potential commercialization of ARX606T, which makes use of our proprietary formulation technology to deliver a safe and well known growth factor topically to patients with severe wounds and ulcers.

We established a feasibility and option agreement in October 2008 with Gaia BioPharma Limited, a privately held early stage biopharmaceutical company. We concluded formulation development on GAI-122 during August 2009. GAI-122 is a drug used for the treatment of delirium caused by prolonged surgery. GAI-122 is proceeding to the clinical trial materials manufacturing stage and is expected to enter clinical trials by the middle of 2010. GAI-122 is protected by 4 United States patent applications.

We entered into a co-development agreement with a US publicly traded company during October 2008 whereby we have been tasked to develop a novel drug formulation using our proprietary drug delivery technology. The company will have an exclusive option period to complete a commercialization agreement with us within six months of completion of the formulation. The extent and duration of consulting services for the initial phase have been finalized and work has commenced on the formulation. There is no assurance that any further consulting services or any other form of revenues will materialize with this company.

During March 2008 Cypress Bioscience, Inc. (“Cypress”) completed the acquisition of our partner Proprius Pharmaceuticals Inc. (“Proprius”). Proprius has development and commercialization rights for Indaflex – our topical cream for the treatment of osteoarthritis of the knee. Additional funding is now available through Cypress in order to further Phase II and III human trials for Indaflex and continue the FDA application process. Under the terms of our agreement, Proprius will undertake completion of clinical trials for Indaflex and will have exclusive global rights (except for Asia and Mexico) to sell and or sublicense Indaflex and any successor NSAID products developed by us. Should clinical trials for Indaflex be successful and sales commence, we will receive clinical trial completion milestone payments and sales milestone payments including a milestone payment of \$3 million for the successful completion of the Phase II trials. In addition to the milestone payments, we will receive royalty payments on sales of Indaflex by Proprius, its affiliates and its sublicensees. There are no assurances or guarantees that Proprius and or Cypress will continue with human trials of Indaflex.

Our 85% owned subsidiary AlphaRx International Holdings Ltd. (“AIH”), through its wholly owned subsidiary AlphaRx Life Sciences Limited has commenced several research initiatives in China and is responsible for the commercialization of Indaflex in China.

We suspended application to have the Company listed on the Toronto Stock Exchange – Venture Market during October 2008 due to market conditions and our stock price among other factors. Should market conditions improve in the future we may consider re-applying for this listing. There is no assurance that we will re-apply for this listing or that we will obtain the listing, once applied for.

## Overview of Results of Operations

The following tables summarize the results of operations for the years ended September 30, 2009 and 2008 and the quarterly results of operations for the past two years:

<b>Year Ended September 30</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Net Sales	377,480	97,499
Net Loss	(441,876)	(1,335,471)
Net Loss Per Share	(0.01)	(0.01)

<b>Three Months Ended</b>	<b>Sep 30 2009</b>	<b>June 30 2009</b>	<b>Mar 31 2009</b>	<b>Dec 31 2008</b>	<b>Sep 30 2008</b>	<b>June 30 2008</b>	<b>Mar 31 2008</b>	<b>Dec 31 2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Net Sales	88,815	20,982	164,109	103,574	16,326	46,798	17,243	17,132
Net Income (Loss)	(208,562)	(235,695)	23,420	(21,039)	(59,077)	(294,670)	(396,535)	(585,189)
Net (Income) Loss per Share (1)	(0.01)	(0.01)	0.00	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)

NOTE (1) Net Loss per share on a quarterly basis does not equal net Loss per share for the annual periods due to rounding.

## RESULTS OF OPERATIONS

### Year ended September 30, 2009 as compared to year ended September 30, 2008

#### Revenues

Revenues totalled \$377,480 for the year ended September 30, 2009 as compared to \$97,499 generated for the year ended September 30, 2008, an increase of \$279,981 or about 287%. Royalties from Indaflex sales in Mexico increased to \$137,223 from \$97,499 generated for the same period a year ago based on increased sales of Indaflex and an increase in the minimum royalty payment compared to previous year. We also generated \$240,257 in consulting revenues related to product research on behalf of one of our customers during the year ended September 30, 2009 with no comparable revenues in the previous year. We anticipate generating both royalty revenues and consulting revenues in the new fiscal year.

#### General and Administrative Expenses

General and administrative expenses were \$499,339 for the year ended September 30, 2009 as compared to \$753,118 incurred for the same period a year ago, a decrease of \$253,779 or about 34%.

Stock based compensation was \$73,725 for the year ended September 30, 2008 as compared to \$197,795 in 2008, a decrease of \$124,070 or about 63%. There are no further amounts remaining to be amortized related to warrants or options as at September 30, 2009. We anticipate issuance of additional options and warrants in the future, which may result in stock based compensation expense and warrant amortization expense.

General and administrative salary and consulting fees totalled \$175,871 for the year ended September 30, 2009 as compared to \$198,723 incurred for the same period a year ago, a decrease of \$22,852 or about 12%. The decrease stems from salary reductions and reduced consulting efforts. Head count remains static in the general and administrative category with 3 full time and 1 part time staff.

We incurred \$35,787 in investor relations expenses for the year ended September 30, 2009 as compared to \$117,135 incurred in the same period a year ago, a decrease of \$81,348 or about 69%. We incurred no expenses for the year ended September 30, 2009 related to a listing application of the Toronto Stock Exchange as compared to \$124,380 incurred during 2008. We also incurred \$27,031 in sponsorship fees related the listing application in 2008 with no comparable expense in the current year.

We recovered \$120,000 in financial consulting expenses during 2008 thereby reducing overall general and administrative expenses in 2008. There was no comparable expense recovery during fiscal 2009.

We realized a foreign exchange loss of \$49,189 for the year ended September 30, 2009 as compared to a foreign exchange gain of \$15,694 generated during the same period a year ago, an increase of \$64,883 between years.

Non-salary administrative expenses incurred in China totalled \$10,660 for the year ended September 30, 2009 as compared to \$53,237 incurred in the same period a year ago, a decrease of \$42,577 or about 80%. Until revenue potential becomes more evident, China overheads are being kept to a minimum.

We incurred travel expenses of \$63,733 for the year ended September 30, 2009 as compared to \$92,399 incurred during the same period a year ago, a decrease of \$28,666 or about 31%. Reduced travel particularly to China has served to decrease this expense as compared to prior year.

## **Research and Development Expenses**

Research and development expenses include costs for scientific personnel, supplies, equipment, outsourced clinical and other research activities, consultants, and other costs directly related to research and development of new and existing products. We are incurring research and development expenses in Canada via our wholly owned subsidiary AlphaRx Canada Ltd. and to a lesser degree in China.

We incurred \$204,731 in research and development expenses during the year ended September 30, 2009 as compared to \$583,195 incurred in the same period a year ago, a decrease of \$378,464 or about 65%.

Research and development staff costs and external consulting services totalled \$139,379 for the year ended September 30, 2009 as compared to \$331,632, a decrease of \$192,253 or about 58%. Salary reductions, benefits eliminations and reduced external consulting services served to reduce this expense when compared to prior year.

Animal testing did not occur during the year ended September 30, 2009 as it was deemed there are adequate product candidates on which to continue other non-animal research and testing. During the year ended September 30, 2008 we incurred \$152,711 in animal testing expenses.

Finally equipment leasing for research and development activities totalled \$11,151 during the year ended September 30, 2009 as compared to \$29,708, a reduction of \$18,557 or about 62%. Certain equipment leases have terminated and others are coming to the end of their lease term.

During 2009 we focused our research and development efforts on Vancomycin, Idebenone, Mebicar, and Iodoantipyrine. Activities primarily related to formulations, and analytical development and testing.

During 2008 we incurred research and development expenses related to completing animal testing with Zysolin™, as well as continued research and development with Vancomycin, Tobramycin, Gentamycin and Doxycycline.

We anticipate continued spending on research and development in the future. The degree and pace of expenditures will depend primarily on financial resources available to us.

### **Depreciation Expense**

Depreciation expense totalled \$61,288 for the year ended September 30, 2009 as compared to \$78,269 incurred for the same period a year ago, a decrease of \$16,981 or about 22%. We did not purchase any property plant and equipment during the year as compared to purchases of \$10,141 for the year September 30, 2008. Fully depreciated assets no longer attracting depreciation expense more than offset the additional depreciation expense stemming from capital asset purchases made in 2008.

### **Interest Expense**

We incurred \$54,154 in net interest expense during 2009 as a result of our borrowings and the issuance of promissory notes yielding interest ranging from 10% - 12% per annum. This compares to \$35,857 incurred during 2008 an increase of \$18,297 or about 51%.

To reduce interest expense in 2008, we converted \$1,169,793 in promissory notes into shares of Common Stock of the Company during September 2007. We also used the proceeds from a private placement completed during November 2007 to repay all outstanding debt as of December 31, 2007. Further borrowings from January to September 2008 and during fiscal 2009 resulted in increasing interest expense incurred. We will continue to seek funding in the form of Promissory Notes, which will result in ongoing interest expense until more permanent equity or other forms of funding are sourced.

### **Loss from Continuing Operations and Net Loss**

As a result of the above revenues and expenses, we incurred a loss from continuing operations of \$(442,032) for the year ended September 30, 2009 as compared to \$(1,352,940) incurred for the same period a year ago, an improvement of \$910,908 or about 67%. Revenues increased by \$279,981 and expenses decreased by \$630,927 in the year ended September 30, 2009 as compared to the previous year.

Net Loss was \$(442,032) for the year ended September 30, 2009 as compared to a net loss of \$(1,350,819) incurred for the same period a year ago. The net loss in 2008 was reduced by the gain from discontinued operations of \$2,121.

### **Cumulative Translation Adjustment and Comprehensive Loss**

The cumulative translation adjustment (“CTA”) stems from unrealized foreign exchange gains and losses resulting from translation of foreign currency subsidiaries into U.S. dollars. Although the CTA is reflected in the statement of operations, it is reflected after the net loss and flows into stockholders’

equity/(deficiency) directly. The CTA was a \$4,373 gain for the year ended September 30, 2009 as compared to a loss of \$(81) for the year ended September 30, 2008. Netting the CTA against the Net Loss for the year results in comprehensive loss of \$(437,503) for the year ended September 30, 2009 as compared to a comprehensive loss of \$(1,335,552) incurred for the year ended September 30, 2008.

### **Liquidity And Capital Resources**

At September 30, 2009, we had a working capital deficiency of approximately \$978,820 as compared to a working capital deficiency of \$686,919 as at September 30, 2008. We have licensing arrangements with Andromaco and Proprius Pharmaceuticals, Inc., which provide our royalty and licensing revenues based on achieving milestones and/or sales of our products. We also generate certain consulting revenues from time to time in conjunction with our research and development. We continue to seek out licensing and royalty arrangements and distribution arrangements with established and experienced partners in order to expand our revenue base.

Immediate capital needs are sourced via directors' loans and other private sources. Since inception, we have financed operations primarily from the issuance of Common Stock. We expect to continue Common Stock issuances and issuance of promissory notes to fund our ongoing activities.

We currently do not have sufficient resources to complete the commercialization of all of our proposed products or to carry out our entire business strategy. Therefore, we will need to raise additional capital to fund our operations sometime in the future. We cannot be certain that any financing will be available when needed. Any additional equity financings will be dilutive to our existing stockholders, and debt financing, if available, may involve restrictive covenants on our business and also the issuance of warrants or conversion features which may further dilute our existing stockholders.

We expect to continue to spend capital on:

1. research and development programs;
2. preclinical studies and clinical trials;
3. regulatory processes; and
4. sales and marketing activities related to establishing collaborative, licensing and distribution agreements.

The amount of capital we may need will depend on many factors, including:

1. the progress, timing and scope of our research and development programs;
2. the progress, timing and scope of our preclinical studies and clinical trials;
3. the time and cost necessary to obtain regulatory approvals;
4. the time and cost necessary to establish licensing and similar marketing arrangements in order to generate royalty and license fee revenues;
5. the time and cost necessary to respond to technological and market developments; and
6. new collaborative, licensing and other commercial relationships that we may establish.

The inability to raise capital would have a material adverse effect on the Company.

## Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements that are material and which, in our opinion, could become material in the future.

## Contractual Obligations and Commitments

Excluding accounts payable and accrued liabilities, the Company is committed to the following contractual obligations and commitments.

	2010	2011	2012	2013	2014
Operating Lease Obligations	\$ 23,923	\$10,911	\$8,066	-	-
Notes Payable (1)	585,284	-	-	-	-
Total	\$ 609,207	\$10,911	\$8,066	-	-

(1) These notes are unsecured and include accrued interest accruing at rates ranging from 8% -12% per annum.

## Certain Factors that may Affect Future Results

Certain of the information contained in this document constitutes “forward-looking statements”, including but not limited to those with respect to the future revenues, our development strategy, involve known and unknown risks, uncertainties, and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the risks and uncertainties associated with a drug delivery company including a history of net losses, unproven technology, lack of manufacturing experience, current and potential competitors with significant technical and marketing resources, need for future capital and dependence on collaborative partners and on key personnel. Additionally, we are subject to the risks and uncertainties associated with all drug delivery companies, including compliance with government regulations and the possibility of patent infringement litigation, as well as those factors disclosed in our documents filed from time to time with the United States Securities and Exchange Commission.

## ITEM 7. FINANCIAL STATEMENTS FOR 2009 AND 2008

The financial statements for the fiscal year ending September 30, 2009 and 2008, required by Item 7 are set forth on pages F-1 through F-21.

## ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable

## ITEM 8A. CONTROLS AND PROCEDURES

## **Management's Report on Internal Controls over Financial Reporting**

The Company's chief executive officer and the Company's chief financial officer and principal accounting officer are responsible for establishing and maintaining adequate disclosure controls and procedures over financial reporting for the Company. Internal control over financial reporting is a process by which, under the supervision of the Chief Financial Officer and Principle Accounting Officer, and effected by our Board of Directors and management, reasonable assurance is provided regarding the reliability, thoroughness and timeliness of financial statement preparation and related disclosures for external purposes.

### **Policies and procedures pertaining to financial reporting include:**

- (i) providing reasonable assurance that transactions are recorded accurately, thoroughly and on a timely basis to allow for preparation of financial statements in accordance with generally accepted accounting principles;
- (ii) providing reasonable assurance that our expenditures and receipts are effected only in accordance with management's authorizations and existing approved policies;
- (iii) providing reasonable assurance regarding the prevention or detection of unauthorized transactions, use of assets and accounting errors which may have a material effect on our financial statements.

Due to inherent limitations, internal controls over financial reporting cannot provide absolute assurance that misstatements can be prevented or detected.

### **Evaluation of Disclosure Controls and Procedures**

Based on their evaluation as of September 30, 2009, and in connection with the preparation of this Annual Report on Form 10-K the chief executive officer and the chief financial officer and principal accounting officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) are effective, with one exception as described below, to ensure that information required to be disclosed by the Company in reports that the Company files or submits under the Securities Exchange Act, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

During our evaluation we have identified one material weakness in our internal controls over financial reporting. This weakness relates to the small number of staff on hand such that complete segregation of incompatible duties is not possible. The sole accounting staff member does not allow for an effective segregation of duties and as such this could lead to delays in reporting of transactions and other shortcomings in the financial reporting process. Despite this shortcoming management believes there are adequate offsetting and additional duties and procedures to ensure that adequate control over financial reporting is maintained in an effective manner.

### **Changes in Internal Controls**

The chief executive officer and the chief financial officer and principal accounting officer have concluded that there were no significant changes in the Company's internal controls over financial reporting or in any other areas that could significantly affect the Company's internal controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Due to the small size of our Company this Annual Report on Form 10-K does not include an attestation report regarding internal control over financial reporting pursuant to temporary rules in effect that permit us to provide only management's report in the Annual Report on Form 10-K.

**ITEM 8B. OTHER INFORMATION**

None.

**PART III**

**ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT**

The following table sets forth, as of December 1, 2009, the name, age, and position of each of our executive officers and directors:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Term</u>
Michael M. Lee	46	Chairman of the Board of Directors Chief Executive Officer	since 8/8/1997
Marcel Urbanc, C.A.	53	Chief Financial Officer and Principal Accounting Officer	
Joseph Schwarz, Ph.D	55	Chief Scientist	
Michael Weisspapir, MD, Ph.D	53	Chief Medical Officer	
Sandro Persia	39	Secretary/Treasurer	
Dr. David Milroy	58	Director	since 4/15/2003
Dr. Ford Moore	58	Director	Since 4/15/2003

Michael M. Lee: Mr. Lee is a founder of the Company. Mr. Lee has over 15 years of business experience in the areas of high tech development, marketing and corporate finance. Mr. Lee holds a B.Sc. in Applied Mathematics from the University of Western Ontario. Mr Lee founded the company in August 1997.

Marcel Urbanc, C.A.: Mr. Urbanc obtained his Chartered Accountant designation in 1985 after articling with Arthur Andersen & Co. for 3 years. Prior to joining the Company, Mr. Urbanc served as Controller and then VP Finance & CFO of Oasis Technology Ltd., a software company involved in transaction processing from 1994 to 2002. During his tenure at Oasis private equity funding of approximately \$45,000,000 was raised. Mr Urbanc has been with the Company since March 2003.

Joseph Schwarz, Ph.D.: Dr. Schwarz is our chief scientist. Dr. Schwarz has extensive experience in the research and development of controlled release drug delivery systems, his areas of expertise cover controlled delivery of drugs, colloidal and microcorpusculate drug delivery systems, submicron emulsions (SME), transdermal delivery (topical and systemic). Dr. Schwarz has published more than 40 articles in various scientific journals and has written over 20 patents and patent applications. Dr. Schwarz was the

senior scientist at Pharmos Ltd., a publicly traded U.S. pharmaceuticals company from 1991 to 1995. From 1995 to 1997 he was the senior scientist in the research and development department of TEVA Pharmaceuticals Ltd. From 1997 to 1998, Dr. Schwarz was the senior scientist of D-PHARM, a pharmaceuticals concern located in Israel. From 1998 to 1999 Dr. Schwarz served as a part time consultant to the Company and has been with the company since that time.

Michael Weisspapir, M.D., Ph.D.: Dr. Weisspapir has 19 years of successful experience in experimental medicine and extensive experience in interdisciplinary research and development in experimental pharmacology, immunopharmacology, toxicology and neuroscience. Prior to joining the Company, Dr. Weisspapir held a variety of research positions at the University of Tel Aviv and Rabin Medical Center, Israel and the University Health Network, University of Toronto, Canada.

Sandro Persia: Mr. Persia joined Logic Tech Corp. in 1989 as Marketing Manager and promoted to Vice President in 1996. Mr. Persia has extensive business experience in high tech marketing and sales. Mr. Persia holds a diploma in business administration from Seneca College based in Toronto.

David Milroy, D.D.S. M.R.C.D. (C): Dr. Milroy is a Certified Oral & Maxillofacial Surgeon and has been in private practice in Richmond Hill, Woodbridge, and Port Hope, Ontario for the past twenty years. He graduated from the University of Toronto, Faculty of Dentistry with a Doctor of Dental Surgery degree in 1976 and a Residency in Oral & Maxillofacial Surgery at the University of Toronto, Toronto General and Toronto Doctor's Hospitals in 1982.

Ford Moore, D.D.S. F.R.C.D. (C): Dr. Moore is a certified Oral & Maxillofacial Surgeon, is engaged in a full-time private practice in Newmarket, Ontario that he established in 1981. Dr. Moore graduated from the University of Toronto with a Doctor of Dental Surgery degree in 1976, and completed a hospital Residency in Oral Surgery and Anesthesia at Toronto General Hospital, Toronto Doctor's Hospital and the University of Toronto in 1980.

All directors will hold office until the next annual stockholder's meeting and until their successors have been elected or qualified or until their death, resignation, retirement, removal, or disqualification. Vacancies on the board will be filled by a majority vote of the remaining directors. Officers of the Company serve at the discretion of the board of directors.

### **Compensation of Directors**

Our two independent directors did not receive any compensation for the year ended September 30, 2009 or 2008. Directors are reimbursed for direct out-of-pocket expenses for attendance at meetings of the Board of Directors and for expenses incurred for and on behalf of the Company.

### **Board of Directors Committees**

We were not able to attract an independent director with financial experience to sit on our board. Based on the size of the organization – six full time employees, and 2 part time consultants, effective controls over financial reporting and internal financial controls can still be effectively maintained without an audit committee. The board of directors has not yet established a compensation committee.

### **COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT**

Section 16(a) of the Exchange Act requires directors, officers and persons who own more than 10% of a registered class of our equity securities to file reports of ownership and change in ownership with the

Securities and Exchange Commission. Directors, officers and greater than 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely upon our review of the copies of such forms that we received during the fiscal year ended September 30, 2009, we believe that each person who at any time during the fiscal year was a director, officer, or beneficial owner of more than ten percent of our Common Stock complied with all Section 16(a) filing requirements during such fiscal year.

## CODE OF ETHICS

We have not adopted a formal code of ethics at this time, as our focus has been on our product development and enhancement. We do follow what are considered proper business ethics and labour law in Canada ensures that our employees are treated with a minimum standard of care and consideration.

## ITEM 10. EXECUTIVE COMPENSATION

### Summary Compensation

The table below summarizes the compensation received by the Company's Chief Executive Officer for the fiscal years ended September 30, 2009, 2008 and 2007 and each other executive officer of the Company who received compensation in excess of \$40,000 for services rendered during any of those years ("named executive officers").

NAME AND PRINCIPAL POSITION	YEAR	SALARY (\$)	BONUS (\$)	LONG TERM COMPENSATION SECURITIES UNDERLYING OPTION (#)
Michael M. Lee President & C.E.O.	2009	50,504	0	0
	2008	21,209	0	0
	2007	51,068	0	0
Joseph Schwarz Chief Scientist	2009	43,198	0	0
	2008	89,614	0	0
	2007	114,170	0	0
Michael Weisspapir Chief Medical Scientist	2009	43,198	0	0
	2008	82,023	0	0
	2007	103,073	0	0
Marcel Urbanc Chief Financial Officer and Principal Accounting Officer	2009	24,623	0	0
	2008	47,765	0	0
	2007	34,473	0	0

### Aggregated Option Exercises In Last Fiscal Year and Fiscal Year End Option Values

The following table sets forth certain information regarding exercises of stock options during the fiscal year ended September 30, 2009 by the named executive officers. Value of unexercised options is considered to be the difference between exercise price and market price of \$0.12 per share on September 30, 2009. No options were exercised by the named executive officers during fiscal 2009.

<u>Name</u>	<u>Shares</u> <u>acquired on</u> <u>exercise (#)</u>	<u>Value</u> <u>Realized (1)</u> <u>(\$)</u>	<u>Number of</u> <u>Exercisable</u> <u>Options at Fiscal</u> <u>Year-End (#)</u>	<u>Value of Unexercised</u> <u>In-The-Money</u> <u>Options at Fiscal</u> <u>Year-End (\$)</u>
			<u>Exercisable/</u> <u>Unexercisable</u>	<u>Exercisable/</u> <u>Unexercisable</u>
Michael M. Lee	-	-	7,000,000/0	0/0
Marcel Urbanc	-	-	270,000/0	0/0
Joseph Schwarz	-	-	3,000,000/0	0/0
Michael Weisspapier	-	-	3,000,000/0	0/0

1. The value realized is the difference between Fair Market Value of the underlying stock at the time of exercise and the exercise price.

### **2000 and 2003 Stock Option Plans - cancelled**

After the exercising of options to purchase 700,000 shares of Common Stock on December 27, 2007 at an exercise price of \$0.10, the 2000 Stock Option Plan was cancelled with the agreement of the option holders. Similarly the 2003 Stock Option Plan was cancelled in December 2007 with the agreement of the option holders. A total of 1,020,000 options to purchase Common Stock were cancelled under these plans.

### **2004 and 2006 Stock Option Plans - combined into the 2008 Stock Option Plan**

The 2004 and 2006 Plans are administered by the board of directors, which determines which directors, officers, employees, consultants, scientific advisors and independent contractors of the Company are to be granted options, the number of shares subject to the options granted, the exercise price of the options, and certain terms and conditions of the options. The board of directors may delegate administration of the 2004 and 2006 Plans, including the power to grant options to persons who are not officers or directors of the Corporation, to a Stock Option Committee, composed of members of the board of directors. The board of directors, in its sole discretion, may amend, modify or terminate the 2004 and 2006 Plans at any time without restriction. However, no amendment may, without stockholder approval, increase the total number of shares of stock, which may be issued under the 2004 and 2006 Plans (other than increases to reflect stock dividends, stock splits or other relevant capitalization changes). There were 26,000,000 authorized shares of our Common Stock that are not issued or outstanding, reserved for implementation of the 2004 and 2006 Plans.

Options to purchase 2,730,000 shares of Common Stock were exercised on December 27, 2007 at an exercise price of \$0.075. Immediately thereafter 6,640,000 options to purchase shares of Common Stock were cancelled with the agreement of the option holders.

### **2008 Stock Option Plan**

At the Annual General Meeting of Stockholders held November 26, 2008 a majority of stockholders approved the amendment of our Stock Option Plans. The key changes reflected in the 2008 Plan: (i) combine the 2004 and 2006 Plans (the only remaining plans) into one plan for ease of administration; (ii) provide for a cap for the number of options allowed to be issued at 22,000,000; (iii) provide guidelines for exercise prices such that the exercise price of any newly granted option is never less than market value or in the case of any 10% holder, never less than 110% of market value on the day of grant; (iv) provide for a maximum term of 5 years for any option granted; (v) provide for a vesting schedule whereby vesting

must occur over at least 18 months with no more than 1/6<sup>th</sup> of the options granted vesting in any 3 month period; (vi) provide for a maximum number of options to be granted to any one individual in any 12 month period to be no more than 5% of the issued and outstanding common stock; and (vii) provide for a maximum number of options to be granted to any Investor Relations party to be no more than 2% of the issued and outstanding common stock.

These changes provide for more restrictions as to the issuance of stock options than exist under the present 2004 and 2006 Plans. Secondly the combination of the two existing plans will result in less administration effort and fewer administrative costs. The above summary of the 2008 Plan is qualified in all respects by reference to the full text of the 2008 Plan, which was filed together with our Proxy Statement on or about October 1, 2008.

### Equity Compensation Plan Information

	Number of Securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted- Average Exercise Price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first two columns)
Equity Compensation Plans Approved by Security Holders	14,260,000	\$0.155	4,310,000 *
Equity Compensation Plans Not Approved by Security Holders	None	None	None
Total**	14,260,000	\$0.155	4,310,000

\* This amount represents options made available to management, employees and consultants as approved by stockholders at the Annual General Meeting held November 26, 2008. None of these options have been granted to date.

\*\* The total number of shares of Common Stock that may be issued equals 18,570,000, which is less than the 22,000,000 maximum number that may be issued in accordance with the 2008 Plan. Once options have been exercised the maximum allowed to be issued is reduced accordingly. (22,000,000 less 3,430,000 exercised during fiscal 2008 = 18,570,000)

## ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information with respect to ownership of the Company's securities by its officers and directors and by any person (including any "group") who is the beneficial owner of more than 5% of the Company's Common Stock. The total number of shares authorized is 250,000,000 shares of Common Stock, each of which has a par value of \$0.0001. As of December 1, 2009 there were 92,371,192 shares of Common Stock issued and outstanding.

Name and Address Of Owner	Amount and Nature of Beneficial Owner	Percent of Class
Michael Lee <sup>(1)</sup>	16,825,834 shares	18.22%
Joseph Schwarz <sup>(2)</sup>	602,500 shares	0.65%
Ford Moore <sup>(3)</sup>	4,158,179 shares	4.50%
Michael Weisspapir <sup>(2)</sup>	457,500 shares	0.50%
David Milroy <sup>(3)</sup>	2,556,933 shares	2.77%
Marcel Urbanc <sup>(2)</sup>	250,000 shares	0.27%
Sandro Persia <sup>(2)</sup>	18,000 shares	0.02%
All directors and officers as a group (7 persons)	24,868,946 shares	26.92%

<sup>(1)</sup> Director and Officer; <sup>(2)</sup> Officer; <sup>(3)</sup> Director

## ITEM 12. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Mr. Lee, CEO and director loaned us \$5,604 during the year ended September 30, 2009. Interest accrued on all loans outstanding to Mr. Lee totalled \$8,586 as of September 30, 2009. The Company also repaid \$8,000 in principal to extinguish one of the Promissory Notes owing to Mr. Lee during fiscal 2009.

During the year ended September 30, 2008 Michael Lee CEO and Director has loaned us approximately \$207,828 plus accrued interest of \$3,422. These notes carry interest at 12% per annum and are unsecured. These funds were used for general corporate purposes. Of these amounts approximately \$164,000 was repaid during the year ended September 30, 2008.

Except as disclosed above, during the past two years, there have been no other material transactions, series of similar transactions or currently proposed transactions, to which the Company was or is to be a party, and in which any director or executive officer, or any security holder who is known to the Company to own of record or beneficially more than five percent of the Company's Common Stock, or any member of the immediate family of any of the foregoing persons, had a material interest.

## ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

### (a) Exhibits

Exhibits required to be attached by Item 601 of Regulation S-B are listed in the Index to Exhibits beginning after Item 14 of this Form 10-K, which is incorporated herein by reference.

### (b) Reports on Form 8-K

On November 14, 2007 we announced the unregistered sale of 5,000,000 units consisting of 5,000,000 shares of Common Stock and warrants to buy 5,000,000 shares of Common Stock at \$0.10 per unit. The Company received gross proceeds of \$500,000. AlphaRx will not file a registration statement covering such Common Stock.

On December 28, 2007 we announced the exercise of 3,430,000 options to purchase Common Stock and the cancellation of 7,660,000 options to purchase shares of Common Stock by certain directors, officers and employees. Also, we announced the exercise of 1,862,228 warrants to purchase shares of Common Stock by our President and CEO - Michael Lee. The Form 8-K related to this announcement was filed on December 31, 2007.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**Audit Fees:** For the year ended September 30, 2009 we incurred \$24,775 in external audit fees, and quarterly reviews in connection with statutory and regulatory filings to our principal accountants as compared to approximately \$30,228 for the year ended September 30, 2008.

**Audit-Related Fees:** For the years ended September 30, 2009 and 2008 we incurred no fees for assurance and related services by the principal accountant.

**Tax Fees:** For the year ended September 30, 2009 we incurred NIL tax fees with our principal accountants as compared to \$4,732 in non-corporate tax related fees for the year ended September 30, 2008.

**All Other Fees:** For the year ended September 30, 2009 we incurred \$1,613 in other fees with our principal accountants related to our application to the Toronto Stock Exchange – Venture market (for the year ended September 30, 2008 we incurred \$2,478).

**Audit Committee's Pre-Approval Policies and Procedures:** The Company currently does not have a designated Audit Committee, and accordingly, the Company's Board of Directors policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. The independent auditors and management are required to periodically report to the Company's Board of Directors regarding the extent of the services to be provided. Pre-approval is generally provided prior to the service commencing.

#### **SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATED: December 4, 2009

ALPHARx, INC.

By: /s/ Michael M. Lee  
Michael M. Lee, President and  
Chief Executive Officer

By: /s/ Marcel Urbanc  
Marcel Urbanc  
Chief Financial Officer and  
Principal Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant, in the capacities, and on the dates, indicated.

DATED: December 4, 2009

ALPHARx, INC.

Directors:

/s/ Michael M. Lee  
Michael M. Lee, Director and  
Chairman of the Board

/s/ David Milroy  
David Milroy, Director

/s/ Ford Moore  
Ford Moore, Director

## INDEX TO EXHIBITS

<u>EXHIBIT NO.</u>	<u>PAGE NO.</u>	<u>DESCRIPTION</u>
3(i)(a)	*	Certificate of Incorporation dated August 8, 1997 (incorporated by reference to the Form 10-KSB filed on June 16, 2000).
3(i)(b)	*	Amendment to Certificate of Incorporation dated January 26, 2000 (incorporated by reference to the Form 10-KSB filed on June 16, 2000).
3(i)(c)	*	Amended and Restated Certificate of Incorporation dated July 20, 2000 (incorporated by reference to the Form 10-KSB filed on December 31, 2001).
3(ii)	*	Bylaws dated August 11, 1997 (incorporated by reference to the Form 10-KSB filed on June 16, 2000).
10.1	*	2000 Stock Option Plan adopted June 20, 2000 (incorporated by reference to the Form 10-KSB filed on December 31, 2001).
10.2	*	Manufacturing and Distribution License Agreement with Industria Farmaceutica Andromaco, S.A. de C.V. (incorporated by reference to the Form 10KSB filed on July 8, 2005).
10.3	*	2004 Stock Option Plan adopted March 29, 2005 (incorporated by reference to the 10KSB filed on December 29, 2005)
10.4	*	2006 Stock Option Plan adopted March 29, 2006 (incorporated by reference to the 10KSB filed on December 21, 2006)
10.5	*	2008 Stock Option Plan adopted November 26, 2008 (incorporated by reference to the 10K filed on December 22, 2008)
31.1	40	Certification of C.E.O. Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	41	Certification of C.F.O. Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	42	Certification of Michael Lee pursuant to Section 1350 of Chapter 63 of Title 18 United States Code.
32.2	43	Certification of Marcel Urbanc pursuant to Section 1350 of Chapter 63 of Title 18 United States Code.

## EXHIBIT 31.1

I, Michael Lee, President and Chief Executive Officer of AlphaRx, certify that:

1. I have reviewed this annual report on Form 10-K of AlphaRx, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;
5. We have disclosed, based on my most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 4, 2009

/s/ Michael Lee

Michael Lee, President and Chief Executive Officer

## EXHIBIT 31.2

I, Marcel Urbanc, Principal Accounting Officer and Chief Financial Officer of AlphaRx, certify that:

1. I have reviewed this annual report on Form 10-K of AlphaRx, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;
5. We have disclosed, based on my most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 4, 2009

/s/ Marcel Urbanc

Marcel Urbanc, Chief Financial Officer and  
Principal Accounting Officer

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of AlphaRx, Inc. on Form 10-K for the period ending September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof, Michael Lee, as chief executive officer of AlphaRx, Inc., does hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

1. This 10-K report fully complies with the requirements of Section 13(a) of the Exchange Act; and
2. The information contained in this 10-K report fairly presents, in all material respects, the financial condition and result of operations of AlphaRx, Inc.

Date: December 4, 2009

/s/ Michael Lee

Michael Lee

President and Chief Executive Officer

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of AlphaRx, Inc. on Form 10-K for the period ending September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof, Marcel Urbanc, as chief financial officer and principal accounting officer of AlphaRx, Inc., does hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

3. This 10-K report fully complies with the requirements of Section 13(a) of the Exchange Act; and
4. The information contained in this 10-K report fairly presents, in all material respects, the financial condition and result of operations of AlphaRx, Inc.

Date: December 4, 2009

/s/ Marcel Urbanc  
Marcel Urbanc  
Chief Financial Officer and  
Principal Accounting Officer

**ALPHARx, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009 AND 2008**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
AlphaRx, Inc.

We have audited the accompanying consolidated balance sheets of AlphaRx, Inc. (incorporated in the State of Delaware) as at September 30, 2009 and 2008 and the related consolidated statements of operations and comprehensive loss, cash flows and stockholders' deficiency for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AlphaRx, Inc. as at September 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles in the United States of America.

The company is not required to have nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls over financial reporting. Accordingly, we express no such opinion.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters is also described in note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Should the Company be unable to continue as a going concern, certain assets and liabilities will have to be adjusted to their liquidation values.

**“SCHWARTZ LEVITSKY FELDMAN LLP”**

Toronto, Ontario, Canada  
November 11, 2009

Chartered Accountants  
Licensed Public Accountants

**ALPHARx, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT SEPTEMBER 30, 2009 AND, 2008**  
**(All amounts in US Dollars)**

	<b>2009</b>	<b>2008</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 14,006	\$ 24,623
Accounts Receivable (Note 3)	<u>42,330</u>	<u>8,429</u>
<b>TOTAL CURRENT ASSETS</b>	<u>56,336</u>	<u>33,052</u>
 <b>PROPERTY, PLANT and EQUIPMENT, net</b>	 <u>78,237</u>	 <u>149,498</u>
 <b>TOTAL ASSETS</b>	 <u>134,573</u>	 <u>182,550</u>
 <b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	414,872	316,306
Notes Payable (Note 7)	585,284	403,665
Deferred Revenue	<u>35,000</u>	<u>-</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>1,035,156</u>	<u>719,971</u>
 Going Concern (Note 1)		
Commitments (Note 9)		
Related Party Transactions (Note 14)		
 <b>STOCKHOLDERS' DEFICIENCY</b>		
Common Stock: \$ 0.0001 par value, Authorized: 250,000,000 shares; Issued and outstanding September 30, 2009 and 2008: 92,371,192 (Notes 10,12,13)	9,238	9,238
Additional paid-in capital	17,052,076	16,978,351
Deficit	(18,061,820)	(17,619,944)
Accumulated Other Comprehensive Loss	(2,317)	(6,690)
Non-controlling Interest (Note 8)	<u>102,240</u>	<u>101,624</u>
<b>TOTAL DEFICIENCY</b>	<u>(900,583)</u>	<u>(537,421)</u>
 <b>TOTAL LIABILITIES AND DEFICIENCY</b>	 <u>\$ 134,573</u>	 <u>\$ 182,550</u>

Signed: Michael Lee  
Director

Signed: Dr. Ford Moore  
Director

The accompanying notes are an integral part of these consolidated financial statements

**ALPHARx, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**  
**(All amounts in US Dollars)**

	<b>2009</b>	<b>2008</b>
License Fees and Royalties	\$ 137,223	\$ 97,499
Consulting Revenues	<u>240,257</u>	<u>-</u>
<b>TOTAL REVENUES</b>	<b>377,480</b>	<b>97,499</b>
General and Administrative Expenses	499,339	753,118
Research and Development Expenses	204,731	583,195
Depreciation	<u>61,288</u>	<u>78,269</u>
<b>LOSS FROM OPERATIONS</b>	<b>(387,878)</b>	<b>(1,317,083)</b>
<b>OTHER EXPENSES</b>		
Interest Expense, net	<u>(54,154)</u>	<u>(35,857)</u>
<b>LOSS BEFORE INCOME TAXES</b>	<b><u>(442,032)</u></b>	<b><u>(1,352,940)</u></b>
Income Tax (Note 11)	<u>-</u>	<u>-</u>
<b>LOSS FROM CONTINUING OPERATIONS</b>	<b><u>(442,032)</u></b>	<b><u>(1,352,940)</u></b>
Gain from Operations of Discontinued Component (Note 4)	<u>-</u>	<u>2,121</u>
<b>NET LOSS BEFORE NON-CONTROLLING INTEREST</b>	<b><u>( 442,032)</u></b>	<b><u>( 1,350,819)</u></b>
Non-Controlling Interest in Loss of consolidated subsidiaries	<u>(156)</u>	<u>(15,348)</u>
<b>NET LOSS</b>	<b><u>\$ ( 441,876)</u></b>	<b><u>\$ (1,335,471)</u></b>
Translation Adjustment	<u>4,373</u>	<u>(81)</u>
<b>COMPREHENSIVE LOSS</b>	<b><u>( 437,503)</u></b>	<b><u>(1,335,552)</u></b>
<b>Per Share Data</b>		
Net Loss per Share, basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted Average Number of Common Shares Outstanding	92,371,192	90,088,635

The accompanying notes are an integral part of these consolidated financial statements

**ALPHARx, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**  
**(All amounts in US Dollars)**

	Common Stock		Additional Paid in Capital	Accumulated Other Com- prehensive Loss	Deficiency	Total AlphaRx Inc. Stockholders' Deficiency	Non- controlling Interest	Total Deficiency
	Number of Shares	Amount						
<b>Balance as of September 30, 2007</b>	<b>81,203,964</b>	<b>\$8,122</b>	<b>\$15,824,162</b>	<b>\$(6,609)</b>	<b>\$(16,284,473)</b>	<b>\$(458,798)</b>	<b>\$116,986</b>	<b>\$(341,812)</b>
Warrants Amortization			131,832			131,832		131,832
Warrants exercised	2,737,228	273	273,450			273,723		273,723
Stock Options exercised	3,430,000	343	274,407			274,750		274,750
Private Placement	5,000,000	500	474,500			475,000		475,000
Foreign currency translation				(81)		(81)	(14)	(95)
Non- controlling interest							(15,348)	(15,348)
Net Loss 2008					(1,335,471)	(1,335,471)		(1,335,471)
<b>Balance as of September 30, 2008</b>	<b>92,371,192</b>	<b>\$9,238</b>	<b>\$16,978,351</b>	<b>(6,690)</b>	<b>(17,619,944)</b>	<b>(639,045)</b>	<b>101,624</b>	<b>(537,421)</b>
Warrants issued for services			73,725			73,725		73,725
Foreign Currency Translation				4,373		4,373	772	5,145
Non- controlling interest							(156)	(156)
Net Loss 2009					(441,876)	(441,876)		(441,876)
<b>Balance as of September 30, 2009</b>	<b>92,371,192</b>	<b>\$9,238</b>	<b>\$17,052,076</b>	<b>\$(2,317)</b>	<b>(18,061,820)</b>	<b>\$(1,002,823)</b>	<b>\$102,240</b>	<b>\$(900,583)</b>

The accompanying notes are an integral part of these consolidated financial statements

**ALPHARx, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**  
**(All amounts in US Dollars)**

	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ (441,876)	\$ (1,335,471)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	61,288	78,269
Stock based compensation	73,725	197,795
Changes in assets and liabilities:		
Decrease/(Increase) in Accounts Receivable	(33,901)	3,375
Decrease in Prepaid Expenses	-	6,582
Accrued Interest on Notes Payable	46,131	18,602
Increase/(Decrease) in Accounts Payable and Accrued Liabilities	98,566	(203,213)
Increase in Deferred Revenue	35,000	-
Discontinued Operations (Note 4)	-	(18,829)
Non Controlling Interest	<u>(156)</u>	<u>(15,348)</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>(161,223)</u>	<u>(1,268,238)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Machinery and Equipment	<u>-</u>	<u>(10,141)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>-</u>	<u>(10,141)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of Common Stock	-	1,023,473
Issuance of Notes Payable, net of repayments	<u>138,717</u>	<u>181,974</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>138,717</u>	<u>1,205,447</u>
Effect of exchange rate changes on cash and cash equivalents	<u>11,889</u>	<u>(30,773)</u>
<b>NET DECREASE IN CASH</b>	<u>(10,617)</u>	<u>(103,705)</u>
CASH and cash equivalents, beginning of year	<u>24,623</u>	<u>128,328</u>
CASH and cash equivalents, end of year	<u>\$ 14,006</u>	<u>\$ 24,623</u>
<b>SUPPLEMENTARY DISCLOSURE:</b>		
Income Tax Paid	<u>\$ -</u>	<u>\$ -</u>
Interest Paid	<u>\$ 6,227</u>	<u>\$ 23,419</u>

The accompanying notes are an integral part of these consolidated financial statements

**ALPHARX INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009 AND 2008**  
**(All amounts in US Dollars)**

**NOTE 1. NATURE OF BUSINESS AND GOING CONCERN**

ALPHARX, INC. (the “Company”) was incorporated under the laws of the State of Delaware on August 8, 1997. AlphaRx Inc. is an emerging pharmaceutical company specializing in the formulation of therapeutic products using proprietary drug delivery technologies.

Effective June 30, 2006, AlphaRx International Holdings Limited (a British Virgin Island company and an 85% owned subsidiary of AlphaRx Inc.) (“AIH”) acquired 100% of Alpha Life Sciences Ltd. (“ALS”) for a nominal amount and the assumption of approximately \$63,000 of related party liabilities. ALS is primarily involved in research and development of drugs in the Asian market.

Effective June 22, 2006, New Super Limited, an independent Hong Kong based corporation, subscribed for 1,500 shares of Common Stock of AIH, previously a wholly-owned subsidiary of the Company.

The consolidated financial statements reflect the activities of the Company, 100% of AlphaRx Canada Limited and 85% of AIH and ALS (AIH’s wholly-owned subsidiary) accounted for on a self-sustained basis. All material inter-company accounts and transactions have been eliminated. Where the Company owns less than 100% of a consolidated entity the net assets belonging to the minority owners are accounted for as a non-controlling interest.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, they do not include any adjustments relating to the realization of the carrying value of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Factors relating to going concern issues include working capital deficiency, operating losses, stockholders’ deficit, and continued reliance on external funding sources. Continuance of the Company as a going concern is dependent on its future profitability and on the on-going support of its stockholders, affiliates and creditors. In order to mitigate the going concern issues, the Company is constantly pursuing new business arrangements and striving to achieve profitability, and seeking capital funding on an ongoing basis via the issuance of Promissory Notes, and private placements. The Company has contracted with several parties for research and development consulting services that could also result in future license fees and royalties. The Company has one licensee that provides an ongoing royalty stream for its Indaflex product. The Company is constantly seeking out collaborative arrangements with third parties in anticipation of license fees, royalties, milestone payments and consulting services.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies is presented to assist in understanding the Company’s consolidated financial statements. The consolidated financial statements and notes are representations of the Company’s management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles in the United States of America and have been consistently applied in the preparation of the consolidated financial statements.

**Cash and Cash Equivalents**

Cash includes cash on hand, and amounts on deposit with banks. Cash equivalents include any other highly liquid cash investments purchased with maturity of three months or less which are readily convertible to cash. The carrying amount approximates fair value because of the immediate liquidity or

short maturity of these instruments. As at September 30, 2009 and 2008 the Company had only cash on deposit and petty cash on hand.

### **Accounts Receivable**

The Company segregates trade receivables resulting from revenues generated from non-trade or other receivables. An allowance for bad debts is estimated for each type of receivable on a periodic basis based on experience with the respective parties.

### **Financial Instruments**

#### a) Fair Value

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of judgement, they cannot be determined with complete accuracy. Changes in assumptions can significantly affect estimated fair values. The carrying values of cash, accounts receivable, notes payable, accounts payable, and accrued liabilities approximate their fair values because of the short-term nature of these instruments.

#### b) Interest rate, currency and credit risk

The Company is not subject to significant credit and interest risks arising from these financial instruments. The Company may be subject to significant currency risk as some of the external promissory notes are denominated in Canadian dollars or Hong Kong dollars.

### **Long-Term Financial Instruments**

The fair value of each of the Company's long-term financial assets is based on the amount of future cash flows associated with each instrument discounted using an estimate of what the Company's current borrowing rate for similar instruments of comparable maturity would be.

It is of the management's opinion that the Company is not exposed to significant interest rate risk, credit risk or currency risks arising from these financial instruments.

### **Foreign Currency Translation**

The Company maintains the books and records of AlphaRx Canada Ltd. in Canadian dollars, and the books and records of Alpha Life Sciences Ltd. and AlphaRx International Holdings Ltd. in Hong Kong dollars, their respective functional currencies. The records of these companies are converted to US dollars, the reporting currency. The translation method used is the current rate method. Under the current rate method all assets and liabilities are translated at the current rate, stockholders' equity accounts are translated at historical rates and revenues and expenses are translated at average rates for the year. Cumulative net translation adjustments related to equity accounts are included as a separate component of stockholders' deficiency.

### **Earnings or Loss Per Share**

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the year. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding plus Common Stock equivalents (if dilutive) related to stock options and warrants for each year.

## **Income Taxes**

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statement or tax returns. Deferred income taxes are provided using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities.

Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustments to tax expense in the period of enactment. Deferred tax assets may be reduced, if deemed necessary based on a judgmental assessment of available evidence, by a valuation allowance for the amount of any tax benefits which are more likely, based on current circumstances, not expected to be realized.

## **Property Plant and Equipment**

Property plant and equipment are stated at cost. Depreciation is calculated by using the Modified Accelerated Cost Recovery System Method for financial reporting as well as for income tax purposes at rates based on the following estimated useful lives:

Furniture and Fixtures	7 years
Machinery and Equipment	3 - 7 years
Leasehold Improvements	10 years

The Company capitalizes expenditures that materially increase assets' lives and expenses ordinary repairs and maintenance to operations as incurred. When assets are sold or disposed or otherwise fully depreciated, the cost and related accumulated depreciation is removed from the accounts and any gain or loss is included in the statement of income and retained earnings.

## **Research and Development**

All research and development costs are charged to expense as incurred. These costs include in house and contracted research and development, travel to explore and evaluate new product candidates, raw materials, lab supplies and other costs related directly to research and development of new and existing drug product candidates.

## **Revenue Recognition**

Revenues related to license fees and royalties are recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, and collectability is probable. Should there be any future obligations or deliverables related to the license fees, revenue is deferred and recognized only when those obligations and or deliverables have been satisfied. Any advance payments or deposits received in relation to license fees and other fees are deferred until those obligations or deliverables have been satisfied. Royalty payments are not received in advance but rather, are paid to the Company based on previous period sales by licensees. Royalty revenue is accrued in the period earned based on estimates or actual licensed sales during the period in question.

Consulting revenues are recognized as the services are rendered to the customer, and invoiced on a periodic basis or upon completion of the consulting services depending on contract terms and conditions.

Sales represent the invoiced value of goods supplied to customers. Revenues are recognized upon the passage of title to the customers, provided that the collection of the proceeds from sales is reasonably

assured. A reserve for returns is considered periodically based on actual or anticipated returns from customers. The Company no longer sells any products directly to end-users.

### **Use of Estimates**

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates in amounts that may be material to the consolidated financial statements. Management believes that these estimates and assumptions used are reasonable. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period in which they become known. Estimates were used in determining the amounts of accrued liabilities, useful lives of property plant and equipment, stock based compensation, and valuation allowances.

### **Long-Lived Assets**

The Company reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During the year management determined that an impairment test was necessary and used its best estimate of the undiscounted cash flows to evaluate the carrying amount and have determined that no impairment has occurred.

### **Concentrations of Credit Risks and Revenues**

The Company's receivables are unsecured and are generally due in 30 Days. Reserves for uncollectible receivables are determined by the Company periodically based on best estimates available and historical data, as well as the economic and financial status of its debtors. Investment in marketable securities carry normal market risk of fluctuation in the price of securities traded on recognized stock exchanges as well as liquidity and foreign exchange risks.

Currently, the Company does not have a diverse customer base. The Company relies on one licensee for all of its royalty revenues and has another licensee attempting to commercialize one of its product candidates. Should these licensees discontinue sales of our products, or should commercialization efforts of our product candidates be curtailed, our revenues could be adversely impacted.

### **Investment in Joint Venture**

The Company holds an indirect 42.5% interest in AlphaAP Inc. ("AAP"), a joint venture established between the Company (via its AIH subsidiary) and Basin Industrial Limited (an independent third party). As the Company contributes no funds, and does not provide management or direction to the joint venture, the Company's interest in the joint venture is not consolidated into the financial statements. AIH will receive a 5% royalty on all revenues generated by AAP. This joint venture is currently inactive.

### **Stock Based Compensation**

The Company recognizes compensation cost for third party and employee services rendered in exchange for an equity instrument award based on the fair value of the award on the date of grant. The Company uses the Black-Sholes option-pricing model in determining the fair value of options and warrants. In determining the expected volatility, the Company bases this assumption on the historical volatilities of the Company's common stock over the expected life of the stock acquisition rights.

## Comprehensive Income

Comprehensive income is net income plus certain items that are recorded directly to stockholders' equity, bypassing net income. With the exception of foreign exchange gains and losses, the Company has no other components in its comprehensive income (loss) accounts.

## Recent Pronouncements

**FASB ASC TOPIC 805** – “Business Combinations.” The objective of this topic is to enhance the information that an entity provides in its financial reports about a business combination and its effects.

The Topic mandates: (i) how the acquirer recognizes and measures the assets acquired, liabilities assumed and any non-controlling interest in the acquiree; (ii) what information to disclose in its financial reports and; (iii) recognition and measurement criteria for goodwill acquired. This Topic is effective for any acquisitions made on or after December 15, 2008. The adoption of this Topic did not have a material impact on the Company's financial statements and disclosures.

**FASB ASC TOPIC 810** – “Noncontrolling Interests.” The objective of this Topic is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require: (i) the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity; (ii) the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; (iii) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently; (iv) when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment and; (v) entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. This Topic is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this Topic is not expected to have a material impact on the Company's financial statements and disclosures.

**FASB ASC TOPIC 815** – “Derivatives and Hedging.” The use and complexity of derivative instruments and hedging activities have increased significantly over the past several years. This Topic requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This Topic is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this Topic is not expected to have a material impact on the Company's financial statements and disclosures.

**FASB ASC TOPIC 944** – “Financial Services – Insurance.” Diversity exists in practice in accounting for financial guarantee insurance contracts by insurance enterprises. That diversity results in inconsistencies in the recognition and measurement of claim liabilities because of differing views about when a loss has been incurred. This Topic requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This Topic is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for some

disclosures about the insurance enterprise's risk-management activities. The adoption of this Topic is not expected to have a material impact on the Company's financial statements and disclosures.

**FASB ASC TOPIC 855** - "Subsequent Events." In May 2009, the FASB issued Topic 855, which establish general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this Topic sets forth : (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This Topic should be applied to the accounting and disclosure of subsequent events. This Topic does not apply to subsequent events or transactions that are within the scope of other applicable accounting standards that provide different guidance on the accounting treatment for subsequent events or transactions. This Topic was effective for interim and annual periods ending after June 15, 2009, which was September 30, 2009 for the Company. The adoption of this Topic did not have a material impact on the Company's financial statements and disclosures.

**FASB ASC TOPIC 105** - "The FASB Accounting Standard Codification and the Hierarchy of Generally Accepted Accounting Principles." In June 2009, the FASB issued Topic 105, which became the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Topic, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-SEC accounting literature not included in the Codification will become non-authoritative. This Topic identifies the sources of accounting principles and the framework for selecting the principles used in preparing the financial statements of nongovernmental entities that are presented in conformity with GAAP and arranged these sources of GAAP in a hierarchy for users to apply accordingly. This Topic is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this topic did not have a material impact on the Company's disclosure of the financial statements.

**FASB ASC TOPIC 320** - "Recognition and Presentation of Other-Than-Temporary Impairments." In April 2009, the FASB issued Topic 320 amends the other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This Topic does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The Topic is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009, is not permitted. This Topic does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this Topic requires comparative disclosures only for periods ending after initial adoption. The adoption of this Topic did not have a material impact on the Company's financial statements and disclosures.

**FASB ASC TOPIC 860** - "Accounting for Transfer of Financial Assets and Extinguishment of Liabilities." In June 2009, the FASB issued additional guidance under Topic 860 which improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This additional guidance requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor's beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. Enhanced disclosures are required to provide financial statement users with greater transparency about transfers of financial assets

and a transferor's continuing involvement with transferred financial assets. This additional guidance must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This additional guidance must be applied to transfers occurring on or after the effective date. The adoption of this Topic is not expected to have a material impact on the Company's financial statements and disclosures.

**FASB ASC TOPIC 810** - "Consolidation of Variables Interest and Special Purpose Entities." In June 2009, the FASB issued Topic 810, which requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has both of the following characteristics: (i) The power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (ii) The obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. This Topic requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity and eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, which was based on determining which enterprise absorbs the majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both. This Topic is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The adoption of this Topic is not expected to have a material impact on the Company's financial statements and disclosures.

**FASB ASC TOPIC 820** - "Fair Value measurement and Disclosures", an Accounting Standard Update. In September 2009, the FASB issued this Update to amendments to Subtopic 82010, "*Fair Value Measurements and Disclosures*". Overall, for the fair value measurement of investments in certain entities that calculates net asset value per share (or its equivalent). The amendments in this Update permit, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the amendments in this Update on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date, including measurement of all or substantially all of the underlying investments of the investee in accordance with Topic 820. The amendments in this Update also require disclosures by major category of investment about the attributes of investments within the scope of the amendments in this Update, such as the nature of any restrictions on the investor's ability to redeem its investments at the measurement date, any unfunded commitment, and the investment strategies of the investees. The major category of investment is required to be determined on the basis of the nature and risks of the investment in a manner consistent with the guidance for major security types in GAAP on investments in debt and equity securities in paragraph 320-10-50-IB. The disclosures are required for all investments within the scope of the amendments in this Update regardless of whether the fair value of the investment is measured using the practical expedient. The amendments in this Update apply to all reporting entities that hold an investment that is required or permitted to be measured or disclosed at fair value on a recurring or non recurring basis and, as of the reporting entity's measurement date, if the investment meets certain criteria. The amendments in this Update are effective for the interim and annual periods ending after December 15, 2009. Early application is permitted in financial statements for earlier interim and annual periods that have not been issued. The adoption of this Update is not expected to have a material impact on the Company's financial statements and disclosures.

**FASB ASC TOPIC 740** - “Income Taxes”, an Accounting Standard Update. In September 2009, the FASB issued this Update to address the need for additional implementation guidance on accounting for uncertainty in income taxes. For entities that are currently applying the standards for accounting for uncertainty in income taxes, the guidance and disclosure amendments are effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this Update did not have a material impact on the Company’s financial statements and disclosures.

**NOTE 3. ACCOUNTS RECEIVABLE**

	<b>2009</b>	<b>2008</b>
Trade Accounts Receivable	\$ 40,350	\$ 6,076
Other Accounts Receivable	<u>1,980</u>	<u>2,353</u>
	<u>\$ 42,330</u>	<u>\$ 8,429</u>

The Company carries accounts receivable at the amounts it deems to be collectible. Accordingly, the Company provides allowances for accounts receivable it deems to be uncollectible based on management’s best estimates. Recoveries are recognized in the period they are received. The ultimate amount of accounts receivable that becomes uncollectible could differ from those estimated. No reserve for bad debts was established as at September 30, 2009 and 2008 as all amounts were deemed collectible.

**NOTE 4. DISCONTINUED OPERATIONS**

The Company discontinued direct sales of Flexogan during 2005. The statements of income for the Discontinued Operations are seen below. No balance sheet items remain as at September 30, 2009 and 2008.

<b>Income Statements</b>	<b>2009</b>	<b>2008</b>
Sales	\$ -	\$ 2,121
Cost of Sales	<u>-</u>	<u>-</u>
Gross Margin	<u>-</u>	<u>2,121</u>
Income Taxes	<u>-</u>	<u>-</u>
Gain from Discontinued Operations	<u>\$ -</u>	<u>\$ 2,121</u>

**NOTE 5. PROPERTY, PLANT & EQUIPMENT**

	<b>2009</b>	<b>2008</b>
Leasehold Improvements	\$ -	\$ 22,891
Furniture and Fixtures	16,140	28,060
Machinery and Equipment	<u>198,988</u>	<u>339,502</u>
<b>COST</b>	<u>215,128</u>	<u>390,453</u>
Less: Accumulated depreciation/amortization		
Leasehold Improvements	-	20,149
Furniture and Fixtures	12,837	19,943
Machinery and Equipment	<u>124,054</u>	<u>200,863</u>
	<u>136,891</u>	<u>240,955</u>
<b>NET</b>	<u>\$ 78,237</u>	<u>\$ 149,498</u>

The cost and accumulated depreciation of \$347,860 (\$201,353 in 2008) for property, plant and equipment and leasehold improvements that are fully depreciated or amortized, has been removed.

**NOTE 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities are comprised of the following:

	<b>2009</b>	<b>2008</b>
Accounts Payable	\$ 303,010	\$ 290,939
Accrued Liabilities for services rendered but not invoiced as of September 30, 2009 and 2008:		
Professional services (legal, audit, financial)	20,795	21,112
Management Salary	68,225	-
Other	<u>22,842</u>	<u>4,255</u>
	<u>\$ 414,872</u>	<u>\$ 316,306</u>

**NOTE 7. NOTES PAYABLE**

The Company and its subsidiaries issued \$138,717 in promissory notes, net of repayments during the year ended September 30, 2009. (\$385,063 during the year ended September 30, 2008). The newly issued and existing promissory notes bear interest at rates of 8% - 12% per annum and are repayable on or before the first anniversary date of issuance.

Promissory notes issued during the three months ended December 31, 2007 were issued together with warrants. This in turn required a discount to be established and amortized over the life of the promissory notes. As all promissory notes were repaid prior to December 31, 2007 the unamortized discount was brought into income accordingly. The Company issued additional promissory notes during the remainder of fiscal 2008 without any warrants or other attachments.

Included in Promissory Notes payable are \$49,813 in Notes Payable including accrued interest of \$8,586 to Michael Lee – CEO at September 30, 2009. (As at September 30, 2008 Notes Payable plus accrued interest of \$3,422 owing to Mr. Lee totalled \$47,250). See also Related Party Transactions Note 14.

<b>September 30,</b>	<b>2009</b>	<b>2008</b>
Promissory Notes Issued and outstanding, net of repayments and conversions:	\$520,551	\$385,063
Interest accrued	<u>64,733</u>	<u>18,602</u>
Promissory Notes Payable	<u>\$585,284</u>	<u>\$403,665</u>

**NOTE 8. NON-CONTROLLING INTEREST**

On June 22, 2006, AlphaRx International Holdings Ltd. (“AIH”), previously a wholly-owned subsidiary of the Company issued 1,500 shares of its Common Stock to New Super Limited (“NSL”), an independent Hong Kong based corporation, at a price of approximately \$HK 6,667 per share or \$HK 10 million in cash. (USD \$1,288,826). As a result AIH’s issued and outstanding shares were increased to 10,000 and the Company’s interest in AIH was reduced to 85%. With the consolidation of only 85% of AIH, a non-controlling interest was established, representing amounts owing to the minority shareholder. The capital infusion into AIH is accounted for as additional paid in capital on the consolidated financial statements of the Company.

## NOTE 9. COMMITMENTS

The Company leases scientific research and development equipment, its main premises on a month-to-month basis and an automobile all on an operating lease basis. The aggregate minimum annual and total payments due under these operating leases are as follows:

As of September 30,	<b>2009</b>	<b>2008</b>
2009	-	\$24,232
2010	\$23,923	2,062
2011	10,911	-
2012	<u>8,066</u>	<u>-</u>
<b>TOTAL</b>	\$42,900	\$26,294

## NOTE 10. COMMON STOCK

The Company is authorized to issue up to 250,000,000 shares of Common Stock. As of September 30, 2009 and 2008, there were 92,371,192 shares of Common Stock issued and outstanding, with a stated par value of \$0.0001 per share.

The Company did not issue any shares of Common Stock during the year ended September 30, 2009. During the year ended September 30, 2008 the Company issued 11,167,228 shares of Common Stock as follows:

On November 14, 2007 the Company issued 5,000,000 units, each unit consisting of one share of Common Stock and a warrant to purchase a share of Common Stock. The Warrants expire December 31, 2009 and are exercisable at \$0.10 per share;

On December 27, 2007 officers, directors and consultants exercised options to purchase 3,430,000 shares of Common Stock at an average exercise price of \$0.08 per share;

Also on December 27, 2007 Michael Lee (CEO) exercised warrants to purchase 1,862,228 shares of Common Stock at an exercise price of \$0.10 per share;

On February 28, 2008 warrants to purchase 875,000 shares of Common Stock were exercised at a price of \$0.10 per share.

Net Loss per share of Common Stock is not based on diluted shares since the effect would be anti-dilutive. The Company has warrants outstanding to purchase 8,000,000 shares of Common Stock and options outstanding to purchase 14,260,000 shares of Common Stock as at September 30, 2009. On a fully diluted basis there would be 114,631,192 shares of Common Stock issued and outstanding if all warrants and all options were to be exercised. Refer to Notes 12 and 13 respectively for more details on options and warrants. (As at September 30, 2008 there would have been 113,891,192 shares outstanding on a diluted basis if all outstanding warrants and options were exercised).

## NOTE 11. INCOME TAXES

The regional sources of tax losses for the years ended September 30, 2009 and 2008 were as follows:

**2009**

**2008**

North America	\$ (305,980)	\$(1,266,180)
Outside North America	<u>(78,953)</u>	<u>(99,852)</u>
	<u>\$ (384,933)</u>	<u>\$(1,366,032)</u>

Tax losses by year of origin and year of expiry are as follows:

Year of Origin	United States	Year of Expiry	Canada	Year of Expiry	Outside North America	Year of Expiry
1998	\$ 212,899	2018				
1999	795,878	2019				
2000	6,179	2020				
2001	292,351	2021				
2002	1,017,792	2022				
2003	1,189,476	2023				
2004	790,108	2024				
2005	2,166,634	2025	732,448	2015		
2006	1,764,202	2026	682,619	2016	205,123	2013
2007	1,530,976	2027			293,528	2014
2008	1,266,180	2028			99,852	2015
2009	208,940	2029	97,040		78,953	2016
<b>TOTAL</b>	<b>\$11,241,615</b>		<b>\$1,512,107</b>		<b>\$677,456</b>	
<b>CONSOLIDATED TAX LOSSES</b>					<b>\$13,431,178</b>	

The tax effect of material temporary differences representing deferred tax assets is estimated as follows:

	<u>2009</u>	<u>2008</u>
Deferred tax assets:		
North America	\$ 4,400,034	\$ 4,214,654
Outside North America	<u>101,618</u>	<u>89,775</u>
Sub-total	<u>4,501,652</u>	<u>4,304,429</u>
Less Valuation allowance	<u>(4,501,652)</u>	<u>(4,304,429)</u>
Net deferred tax assets	<u>-</u>	<u>-</u>

The valuation allowance as of September 30, 2009 and 2008 totalled \$4,501,652 and \$4,304,429 respectively which consisted primarily of established reserves for deferred tax assets on non-capital operating loss carry forwards for our entities in United States and our foreign entities. The tax rates being used to determine deferred tax assets are estimated at 34.5% for North America and 15% for outside North America.

The consolidated effective tax (benefit) rate as a percentage of income (loss) before income taxes is as follows:

	<u>2009</u>	<u>2008</u>
Combined Statutory Rates	31.3%	34.5%

Non-deductible expenses	(9)	(8)
Change in valuation allowance	<u>(22.3)</u>	<u>(26.5)</u>
Effective tax rate	0%	0%

As of September 30, 2009 the Company had no unrecognized tax benefits and as such required no adjustments to the financial statements. The Company records any interest and penalties related to tax matters within general and administrative expenses on the accompanying consolidated statements of operations and comprehensive loss. These amounts are not material to the consolidated financial statements for the periods presented. The Company's US and Canadian tax returns are subject to examination by respective tax authorities. Generally tax years 2006 – 2009 remain open to examination by those respective tax authorities. (IRS in the United States and Canada Customs and Revenue Agency in Canada).

## NOTE 12. STOCK OPTION PLANS

No options were granted nor were any exercised during the year ended September 30, 2009. There remains 14,260,000 options to purchase shares of Common Stock as of September 30, 2009.

During fiscal 2008 employees, officers and consultants exercised a total of 3,430,000 options at an average exercise price of approximately \$0.08 per share and resulting in \$274,750 in cash proceeds to the Company. Of these options 700,000 were from the 2000 Plan and had a weighted remaining contractual life of 2.5 years when exercised and 2,730,000 were from the 2004 Plan and had a weighted remaining contractual life of 7.8 years when exercised. Immediately thereafter the remaining options in the 2000 Plan and 2003 Plan were cancelled, with the agreement of the option holders. In addition, and pursuant to an application for listing on the Toronto Venture Exchange, the Company cancelled a total of 7,660,000 options with the agreement of the option holders during fiscal 2008.

The intrinsic value of outstanding stock options defined, as the difference between the exercise price and the closing price of the stock on September 30, 2009, for those options that are "in the money" was \$1,800. (September 30, 2008 intrinsic value of nil since no option exercise price was below the closing price on that date).

Proceeds received by the Company from exercises of stock options are credited to Common Stock and additional paid-in capital. Additional information with respect to the plan's stock option activity is seen in the table below. The weighted average exercise price and remaining contractual life for all options seen at the bottom of the table was calculated by multiplying the number of options by the exercise prices or remaining lives and dividing the result by the total number of options. During fiscal 2008, with the agreement of the option holders, the option expiry date for all remaining 2004 Plan options was accelerated to June 30, 2012. All options now expire on or before June 30, 2012. The table below reflects remaining contractual life of the options as of September 30, 2009.

At the Company's Annual General Meeting held November 26, 2008 a majority of stockholders approved amendments to the existing Stock Incentive Plans including, among others: (i) combining the 2004 and 2006 Plans into one "2008 Stock Incentive Plan" for ease of administration; (ii) providing a cap for the number of options to be issued at 22,000,000; (iii) providing guidelines for exercise prices such that the exercise price of any newly granted option is never less than the market value or in the case of a 10%+ holder, never less than 110% of the market value on the date of grant; (iv) providing for a maximum term of 5 years for any option granted; (v) provide for a vesting schedule whereby vesting must occur over at least 18 months with no more than 1/6<sup>th</sup> of the options granted vesting in any 3 month period; (vi) providing for the maximum number of options to be granted to any one individual in any 12 month period to be no more than 5% of the issued and outstanding common stock, and (vii) providing for a maximum

number of options to be granted to any Investor Relations party to be no more than 2% of the issued and outstanding common stock.

As a result of the new terms governing the Company's Stock Incentive Plan, the maximum number of options that can still be issued totals 4,310,000 regardless of how many are exercised or expire.

2008 Stock Incentive Plan	Number Granted, (exercised), (cancelled) or (expired)	Date	Exercise Price \$	Share Price on Date of Grant \$	Expiry Date	Remaining Contractual Life (Years)
	12,720,000	15/11/2004	0.15	0.11	6/30/2012	2.75
	500,000	15/11/2004	0.40 – 0.50	0.11	6/30/2012	2.75
	7,000,000	10/1/2005	0.16	0.14	6/30/2012	2.75
	390,000	8/2/2005	0.15	0.14	6/30/2012	2.75
	100,000	5/25/2005	0.13	0.13	6/30/2012	2.75
	3,290,000	10/17/2005	0.075	0.08	6/30/2012	2.75
<b>Total Grant</b>	24,000,000					
<b>Exercised</b>	(2,730,000)	12/27/2007	0.075	-	-	-
<b>Cancelled</b>	(6,640,000)	12/28/2007	-	-	-	-
<b>Expired</b>	(460,000)	2/10/2008	-	-	-	-
<b>Remaining</b>	<b>14,170,000</b>					
<b>Granted</b>	90,000	1/3/2007	0.10	0.10	1/3/2012	2.26
<b>Total</b>	<b>14,260,000</b>					
Weighted Average of Options Remaining			0.15			2.73

### NOTE 13. WARRANTS

The Company issued 3,000,000 warrants during the year ended September 30, 2009 in exchange for financial advisory services. The Company recorded \$73,725 in stock based compensation for the year ended September 30, 2009 (2008- \$197,795). No income tax benefit has been realized as a result of warrant amortization expenses during 2009 and 2008. Stock based compensation is included in general and administrative expenses seen on the consolidated statement of operations and comprehensive loss. Stock based compensation for fiscal 2009 was calculated using the Black-Sholes pricing model and the following assumptions: expected volatility of 115%, risk free rate of return of 3.65%, expected life of 5 years, and a nil dividend rate.

During the year ending September 30, 2008 warrants to purchase 9,339,435 shares of common stock expired and warrants to purchase 2,737,228 shares of common stock were exercised and an exercise price of \$0.10 per share. Of these warrants, 1,862,228 had a remaining weighted average contractual life of 0.69 years when exercised, and 875,000 warrants had a remaining contractual life of 15 days when exercised. Warrants to purchase 5,770,000 shares of common stock were granted during fiscal 2008, of which 770,000 were cancelled pursuant to an application for listing of the Company's stock on the Toronto Venture Exchange. Of these warrants, 5,000,000 were issued as a result of a private placement, and 770,000 were issued pursuant to a promissory note issued during the year. All of the warrants entitle

the holder to purchase one share of Common Stock on or before the expiry date. All of the warrants granted during 2008 have a 2-year contractual life upon issuance.

Warrant amortization for the fiscal 2008 year was calculated using the Black-Sholes pricing model and the following assumptions: expected volatility of 127%, risk free rate of return of 4%, expected life of 2 years and a nil dividend rate.

As at September 30, 2009 there were 8,000,000 warrants issued and outstanding (September 30, 2008 - 7,260,000). Additional details regarding warrant activity and warrants outstanding as of September 30, 2009 and 2008 are seen in the table below.

<b>Outstanding as at September 30, 2007</b>		<b>Weighted Average Exercise Price</b>			<b>Weighted Average Contractual Life (Years)</b>	
<b>14,336,663</b>		\$0.22			0.53	
<b>Activity during fiscal 2008 and 2009</b>						
5,000,000	Granted November 14, 2007 as part of a Private Placement of 5,000,000 units @ \$0.10					
770,000	Granted during Q1, 2008 based on issuance of Promissory Notes @ \$0.10					
(1,862,228)	Exercised December 27, 2007 @ \$0.10 per share					
(770,000)	Cancelled January 5, 2008 with the agreement of the warrant holder					
(875,000)	Exercised February 28, 2008 @ \$0.10 per share					
(9,339,435)	Expired during fiscal 2008					
<b>7,260,000</b>	<b>Balance September 30, 2008</b>					
(2,260,000)	Expired during fiscal 2009					
3,000,000	Granted in exchange for advisory services April 1, 2009 @ \$0.03 per share					
<b>8,000,000</b>	<b>Balance September 30, 2009</b>					
<b>Outstanding as at September 30, 2009</b>	Issue Date	Exercise Price \$	Share Price on Grant Date \$	Expiry Date	Remaining Contractual Life (Years)	Reason for Issuance
5,000,000	12/31/2007	0.10	0.26	12/31/2009	0.25	Private Placement of Units completed on Nov 14, 2007 and consisting of one share of common stock and one warrant.
3,000,000	4/1/2009	0.03	0.03	3/31/2014	4.50	Issued in exchange for financial advisory services.
		<b>Weighted Average Exercise Price</b>			<b>Weighted Average Contractual Life (Years)</b>	
<b>Total</b>		0.07			1.84	

#### NOTE 14. RELATED PARTY TRANSACTIONS

The Company sourced some of its funding during the year from one director. Mr. Lee, CEO and director loaned the Company \$5,604 during the year ended September 30, 2009. Interest accrued on all loans outstanding to Mr. Lee (the only loans remaining from directors) totalled \$8,586 as of September 30, 2009. The Company also repaid \$8,000 in principal to extinguish one of the Promissory Notes owing to Mr. Lee during fiscal 2009. The total loan amounts including accrued interest owing to Mr. Lee as of September 30, 2009 was \$49,813. (September 30, 2008 - \$47,250)

Mr. Lee loaned the Company approximately \$43,828 during the year ended September 30, 2008 taking back promissory notes. Interest accrued on these loans totalled approximately \$3,422 as at September 30, 2008. Interest rates on all promissory notes outstanding range from 8% - 12% per annum. The loans are repayable on or before the first anniversary date of issuance and are unsecured.

#### NOTE 15. SEGMENTED INFORMATION

The Company operates in one business segment, namely human therapeutics. Results of operations are reported on a consolidated basis for segment reporting purposes. Consolidated disclosures about revenue streams and long-lived assets by geographic area are seen below.

##### Revenues

The Company derived revenues from royalties and from consulting services for the year ended September 30, 2009 and 2008.

Revenue Stream	Years ended September 30,	
	2009	2008
Third Party Royalties (Mexico)	137,223	97,499
Consulting Fees (North America)	240,257	-
<b>Total Revenues</b>	<b>\$377,480</b>	<b>\$97,499</b>

##### Long Lived Assets

Long Lived Assets	Years ended September 30,	
	2009	2008
North America	\$78,237	\$148,481
Asia	-	1,017
<b>Total Long Lived Assets</b>	<b>\$78,237</b>	<b>\$149,498</b>

#### NOTE 16. RECLASSIFICATIONS

Certain amounts from prior year have been reclassified to conform to current year's presentation.

#### NOTE 17. SUBSEQUENT EVENTS

Management has reviewed subsequent events through the date of filing the Annual Report on Form 10-K that includes these consolidated financial statements with the US Securities and Exchange Commission. There were no material subsequent events since November 11, 2009 (audit completion date) that would require recognition or note disclosure in these financial statements.