

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-KSB**

Annual Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 for the fiscal year ended: September 30, 2007  
 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-KSB or any amendment to this Form 10-KSB.

Issuer's revenues for its most recent fiscal year ended September 30, 2007 were \$ 170,441.

The aggregate market value of the issuer's Common Stock (the only class of voting stock), held by non-affiliates was approximately \$17,671,813 based on the average closing bid and ask price for the Common Stock on December 14, 2007.

As of December 18, 2007 there were 86,203,964 shares outstanding of the issuer's Common Stock.

**AlphaRx, Inc.**

**FORM 10-KSB**

For the Year Ended September 30, 2007

**INDEX**

<b>PART I</b>		
Item 1.	Description of Business	3
Item 2.	Description of Property	19
Item 3.	Legal Proceedings	19
Item 4.	Submission of Matters to a Vote of Security Holders	20
<b>PART II</b>		
Item 5.	Market for Common Equity and Related Stockholder Matters	20
Item 6.	Management Discussion and Analysis of Financial Condition	22
Item 7.	Financial Statements for 2006 and 2005	31
Item 8.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	31
Item 8A	Controls and Procedures	31
Item 8B	Other Information	32
<b>PART III</b>		
Item 9.	Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.	32
Item 10.	Executive Compensation	34
Item 11.	Security Ownership of Certain Beneficial Owners and Management	37
Item 12.	Certain Relationships and Related Party Transactions	37
Item 13.	Exhibits and Reports on Form 8-K	38
Item 14.	Principal Accountants Fees and Services	39
<b>SIGNATURES</b>		40
<b>EXHIBITS</b>		42

## PART I

### Item 1. Description of Business

#### COMPANY BACKGROUND

In this annual report on Form 10-KSB, 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 Alpha 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 July 1, 2003 AlphaRx, Inc. acquired all of the shares of AlphaRx Canada Limited for nominal value of \$1. AlphaRx Canada Limited was dormant until this time. AlphaRx Canada Limited was incorporated under the laws of Ontario in order to streamline sales of the Company's products in the Canadian market. Prior to this time AlphaRx Canada Limited had no material assets or any liabilities and was wholly owned by the President & CEO of AlphaRx, Inc.

Effective April 22, 2005 AlphaRx International Holdings Limited (a British Virgin Island company and an 85% owned subsidiary of AlphaRx Inc.) entered into a Joint Venture agreement with Basin Industrial Limited (a British Virgin Islands Company and a wholly-owned subsidiary of Advance Pharmaceutical Co. Ltd.). The Joint Venture, AlphaAP Inc., is involved in manufacturing and marketing of certain of the Company's existing products.

The Company holds an indirect 42.5% interest in Alpha AP 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 from licensed product sales.

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.

Effective June 30, 2006, AlphaRx International Holdings Limited. ("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 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 central strategy is to seek alliances with pharmaceutical companies which will assist us in completing the reformulation and development of the drugs and which will initiate clinical trials and commercialize the products.

We have one product that has completed a Phase II Proof of Concept clinical trial that has been licensed by one of our partners for completion of late stage clinical trials and commercialization, and several products 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 Flexogan. We will focus our resources on development of products and attempting to establish local and international licensing and distribution arrangements and joint ventures for our existing over the counter products. As we develop new products additional offerings will become available.

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.

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 of 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 established AlphaRx International Holdings Limited ("AIH") in 2005 in order to pursue sales activities in the Asia Pacific region with experienced and established partners. AIH entered into a joint venture agreement with Basin Industrial Limited (a Hong Kong based corporation – "Basin"), whereby AIH and Basin will be equal holders of Alpha AP Inc., a company established in order to manufacture and sell our existing and certain future products. AlphaRx, through AIH, is to provide the products, manufacturing and distribution rights, whereas Basin is to provide funding, day-to-day management, manufacturing and marketing expertise. Recently, we have determined that the most effective way to launch the Company's products in China is to establish our own manufacturing plant locally via AIH. Accordingly, the Company has devised a strategic China product launching plan with AIH whereby AIH will commission the registration of Indaflex for the China and Hong Kong market, once approved by the local health authority, AIH will start importing Indaflex from Andromaco, Mexico until such time as its own manufacturing plant is established and able to produce Indaflex locally.

We entered into a licensing and royalty agreement with Proprius Pharmaceuticals, Inc. (“Proprius”) during April, 2006. Under the agreement Proprius has full development and commercialization rights to Indaflex, topical NSAID (Non-Steroidal Anti-inflammatory Drug) currently undergoing Phase II human trials. Under the agreement we could collect up to \$116 million in milestone license fees and royalties from product sales. To date we have collected the initial milestone license fee of \$1 million. We anticipate additional payments in our new fiscal year.

We signed a Feasibility and Option agreement with a large global specialty pharmaceutical company during November, 2006. Under the terms of the Agreement, we will use our proprietary nanoparticle drug delivery platforms to formulate three products to enhance their effectiveness in treating pre-defined disease indications and of the three products, two are marketed products. The licensee will have six months to evaluate the formulated products and exercise its option right for a pre-negotiated License Agreement. We will be eligible to receive milestone and royalty payments from future product sales. We have completed our contracted services related to this agreement as of September 30, 2007.

The Company has engaged a Canadian investment bank to act as sponsor for the inter-listing of its shares on the TSX Venture Exchange. Upon approval of its listing application by the TSX Venture Exchange, AlphaRx’s Common Stock will be dually listed on the TSX Venture Exchange in Canada as well as over-the-counter in US. There is no assurance that our listing application will ever be approved.

## **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 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 can be irritating to the skin and the rate of release can 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 two 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 SLN (Solid Lipid Nanoparticles) delivery system.

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 following is a list of our products and candidates in the product pipeline as well as their current stage of development:

Brand Name	Application	Delivery Route	Stage
<b>Pharmaceuticals</b>			
2.5% Indaflex™	Osteoarthritis	Topical	Phase II*
Vansolin NDS	Nosocomial Pneumonia	I.V.	Preclinical underway**
Zysolin NDS	Pneumonia	I.V.	Preclinical underway**
Ocusolin NDS	Ocular Infection	Topical	Preclinical underway**
Streptomycin NDS	Tuberculosis	I.V.	Preclinical underway **
Binoxan	Ocular Inflammation	Topical	Preclinical underway**
ARX828	Systemic Inflammation	Oral	Preclinical underway**
ARX838	Neuro-inflammation	Oral	Preclinical underway**
<b>Consumer Health (over-the-counter)</b>			
Flexogan™	Analgesic	Topical	Market ready*
CoQ10ER	Nutritional Supplement	Oral	Market ready*

\* Indaflex is approved for sale in Mexico, but must undergo FDA approval for sale in United States and other countries. CoQ10ER and Flexogan is approved for sale in Canada.

\*\* Preclinical 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 in Canada, at test sites which are pre-approved by both Health Canada and FDA.

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. Under the terms of the Licensing Agreement with Proprius we may 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.

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 NDS is encapsulating Vancomycin, a broad spectrum antibiotic, in the Company's nanoparticulate drug delivery platform for intracellular delivery. This early stage drug candidate is currently going through in-vitro and in-vivo studies including biodistribution study, evaluation of the efficacy in murine infection models and toxicological studies.

Zysolin NDS is encapsulating Colistin, a broad spectrum antibiotic, in the Company's nanoparticulate drug delivery platform for intracellular delivery. This early stage drug candidate is currently going through in-vitro and in-vivo studies including biodistribution study, evaluation of the efficacy in murine infection models and toxicological studies.

Ocusolin is a topical ophthalmic solution utilizing Gentamicin, in a nanoparticulate formulation, that may be effective against a broad spectrum of bacteria including strains resistant to more than one antibiotic. This early stage drug candidate is currently going through in-vivo studies including biodistribution study, evaluation of the efficacy in murine infection models and toxicological studies.

Streptomycin NDS is encapsulating Streptomycin, an antibiotic mainly used to treat tuberculosis, in the Company's colloidal drug delivery platform for intracellular delivery. This early stage drug candidate is currently going through in-vitro and in-vivo studies including biodistribution study, evaluation of the efficacy in murine infection models and toxicological studies.

Binoxan is a topical, non-acidic, non-steroidal anti-inflammatory pro-drug in a colloidal formulation intended for the treatment of ocular inflammation, eye pain and photophobia. This early stage drug candidate is currently going through in-vivo studies including biodistribution study, evaluation of the efficacy in murine infection models and toxicological studies.

ARX828 and ARX838 are early stage drug candidates targeting inflammatory diseases. ARX828 and ARX838 are orally bioavailable, small molecules with potent anti-inflammatory and immuno-modulation activity.

Flexogan is a series of topical arthritis and muscle pain relief creams. Flexogan has a unique delivery formulation that increases the speed, volume, and sustained duration of drug penetration through the skin in animal studies.

CoQ10 ER is a novel formulation incorporating the Company's drug delivery process which completely disperses CoQ10 ER into sub-micron oil droplets in the GI tract. The average size of these oil droplets is less than 200 nanometers. These oil droplets can easily penetrate the bilayer of human cells and increase serum Coenzyme Q10 concentration according to one human trial conducted by the Company.

## **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 systems 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 which 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, 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 Rifamsolin, Zysolin, Vansolin & Ocusolin 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 two 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.

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 which 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 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 we or our collaborative partners 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. Until recently all of our research and development activities took place at our main offices in Canada. We have commenced research and development of our oncology initiatives in China via our 85% owned subsidiary AlphaRx International Holdings Limited.

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.

## **PRODUCT LIABILITY AND OTHER INSURANCE**

Our business involves exposure to potential product liability risks that are inherent in the production, manufacture and sale of pharmaceutical products. Any product liability claims could have a material adverse effect on us.

Although we currently maintain product liability insurance of approximately CAD \$1,000,000 through third party insurers that provides coverage for product liability claims, there can be no assurance that:

- we will be able to maintain product liability insurance on acceptable terms;
- we will be able to secure increased coverage as the commercialization of the BCD Systems proceeds; or
- any insurance will provide adequate protection against potential liabilities.

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.

Since we have stopped direct sales of any of our products, we have reduced our product liability coverage to CAD \$1 million from CAD \$3 million effective September 30, 2007. We have never had any adverse legal or other consequences from either Flexogan sales, nor from our Phase 1 and II clinical trials on Indaflex. Proprius Pharmaceuticals Inc. our Indaflex licensee is responsible for future insurance coverage on any Indaflex trials that may be conducted.

## **EMPLOYEES**

We have seven full time employees and three 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 excellent.

## **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, 2007 we had an accumulated deficit of approximately \$ 16,284,473. Our revenues for the years ended September 30, 2007 and September 30, 2006 were \$170,441 and \$1,024,774 respectively. Our revenues have not been

sufficient to sustain our operations. Revenue for 2007 consisted of royalty revenues and consulting revenue, and in 2006 consisted royalty revenues from sales of Indaflex in Mexico and license fees derived from a licensing agreement with Proprius Pharmaceutical Inc. 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, 2007, we had a working capital deficiency of approximately \$559,439 as compared to a working capital deficiency of \$176,129 as at September 30, 2006. The independent auditors' report for the year ended September 30, 2007 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, one U.S. patent has 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 also is 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 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 secrecy 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. We currently maintain CAD\$1,000,000 in product liability insurance coverage. However, these amounts may not be sufficient to protect us against losses or may be unavailable in the future on acceptable terms, if at all.

**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 intense 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, who 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 20.55% 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. Shareholders 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, under a lease, which expires on November 30, 2008 for approximately \$2,600 a month. We believe that our existing properties are sufficient for our administrative, research and development needs for the foreseeable future. We are searching for an office (less than 500 square feet) in China to administer research and development initiatives based in China. To date we have not located an acceptable space.

### **Item 3. Legal Proceedings**

Farhad Walji filed suit against AlphaRx, Inc. and AlphaRx Canada Limited in the Supreme Court of British Columbia on August 23, 2002. Farhad Walji filed a claim asking for \$20,000 plus interest for allegedly providing \$20,000 pursuant to a subscription agreement to purchase shares of AlphaRx's

Common Stock and damages resulting from lost opportunity. As of May 2006 the courts have formally dismissed the case and we no longer have any liability relating to this or any other legal action.

#### **Item 4. Submission of Matters to a Vote of Security Holders**

During the quarter ended September 30, 2007 no matters were submitted to a vote of security holders.

## **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, 2007)	0.10	0.05
Third Quarter	(Ended June 30, 2007)	0.12	0.04
Second Quarter	(Ended March 31, 2007)	0.15	0.08
First Quarter	(Ended December 31, 2006)	0.10	0.07
Fourth Quarter	(Ended September 30, 2006)	0.12	0.08
Third Quarter	(Ended June 30, 2006)	0.25	0.08
Second Quarter	(Ended March 31, 2006)	0.24	0.07
First Quarter	(Ended December 31, 2005)	0.10	0.06

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

Records of our stock transfer agent indicate that as of December 9, 2007 there were approximately 77 record holders of our Common Stock. This does not include an indeterminate number of shareholders 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 future investments in business. 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 shareholders.

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**

Under the 2000 Stock Option Plan we issued 1,150,000 options to purchase shares of Common Stock with an exercise price of \$0.10 per share. These options expire in June 2010.

Under the 2003 Stock Option Plan we issued 570,000 options to purchase shares of Common Stock with exercise prices ranging from \$0.50 - \$0.69 per share. These options expire from February to May, 2008.

Under the 2004 Stock Option Plan approved by our stockholders in July 2004, 24,000,000 shares of Common Stock were made available as options. Under the 2004 Option Plan we issued the following options on November 15, 2004: options to purchase up to 12,720,000 shares of Common Stock with an exercise price of \$0.15 per share; options to purchase up to 250,000 shares of Common Stock with an exercise price of \$0.40 per share; options to purchase up to 110,000 shares of Common Stock with an exercise price of \$0.45 per share; and options to purchase up to 140,000 shares of Common Stock with an exercise price of \$0.50 per share. A total of 13,220,000 options were issued, all of which expire on November 15, 2014. These options were issued to management, directors and consultants and vest 100% on November 15, 2005 as to 12,720,000 options and November 15, 2004 as to the remaining 500,000 options, which were allocated to our consultants. On January 10, 2005 we issued 7,000,000 options under this plan with an exercise price of \$0.16 per share. These options were issued to management and vest 100% on January 10, 2006.

On February 8, 2005 we issued options to purchase up to 390,000 shares of Common Stock to employees and consultants of the Company. These options have an exercise price of \$0.15, vest 100% on February 8, 2006, and expire on February 8, 2015.

On May 25, 2005 we issued options to purchase up to 100,000 shares of Common Stock to a consultant of the Company. These options have an exercise price of \$0.13, vest 100% on May 25, 2005 and expire on May 25, 2010.

On October 17, 2005 we issued options to purchase up to 3,290,000 shares of Common Stock to employees of the Company including directors and one external consultant. These options have an exercise price of \$0.075, vest 100% on October 17, 2006 and expire on October 17, 2015. There are no options remaining to be granted under the 2004 Option Plan.

We adopted a new option plan – the 2006 Option Plan at our Annual General Meeting held March 29, 2006. Under this plan we can issue up to 5,000,000 shares of Common Stock to employees, including directors and external consultants. On January 3, 2007 we issued options to purchase up to 90,000 shares of Common Stock to consultants of the Company. These options have an exercise price of \$0.10, vest 100% on November 10, 2007 and expire on January 3, 2012. There are 4,910,000 options remaining available for issuance under the 2006 Plan.

## **RECENT SALES OF UNREGISTERED SECURITIES**

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 anticipated commission of 5% or \$25,000.

On November 20, 2006 we issued 300,000 shares of restricted stock to a consultant in lieu of \$30,000 cash payment for services rendered.

We did not issue any unregistered securities during the year ended September 30, 2006

## **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 8 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 administerable 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.

During 2003 we initiated commercialization of our products commencing with sales of Flexogan in the Canadian market. It became evident during 2005 that we required more substantial financial resources to pursue Flexogan marketing strategy. We determined that completion of Phase II Indaflex clinical trials was the most appropriate course of action with the resources remaining. Should we be successful in raising additional funding we will continue to pursue completion of Phase II Indaflex clinical trials as our primary objective.

We signed a licensing agreement with Andromaco in August 2003 for the commercialization of our lead pharmaceutical products "Indaflex" in Mexico. Mexican health authorities gave approval to Andromaco to start sales of Indaflex in Mexico. We collected our first royalties from Indaflex sales in the year ended September 30, 2005 and continue to collect royalties.

We established a wholly owned subsidiary – AlphaRx International Holdings Limited ("AIH") in April, 2005 and entered into a Joint Venture Agreement with Basin Industrial Limited (a wholly-owned subsidiary of Advance Pharmaceutical Co. Ltd.). The joint venture – AlphaAP Inc., will be involved in the manufacture and marketing of certain existing and future products in the Far East. AlphaAP remains inactive until local health authorities in Hong Kong and China grant approval to commence over the counter sales of certain products.

We signed a license agreement with Proprius Pharmaceutical Inc. ("Proprius") during April 2006, whereby Proprius completed Phase II clinical trials

On May 1, 2006 we announced that AIH has entered into an agreement with China Lianyungang City Golden Enterprises Limited ("China Party") to establish a Joint Venture in mainland China. The Joint Venture intends to establish a manufacturing facility in Lianyungang City, Jiangsu Province and a distribution network in order to manufacture and market pharmaceutical products licensed by AIH. In addition AIH will help to develop branded generic products in lieu of capital payment into the Joint Venture. China Party has agreed to inject working capital of RMB 250 million (approximately \$31 million) into the Joint Venture in the form of equity. AIH will own 30% of the Joint Venture Common

Stock and China Company will own 70%. AIH is also to receive a 5% royalty on all AIH licensed product sales generated by the Joint Venture.

In June 2006 AIH issued 1,500 shares of its Common Stock to New Super Limited (“NSL”) in accordance with an agreement concluded during April 2006. The shares were issued for total cash consideration of \$HK 10 million (about \$1,288,826). There are presently 10,000 shares of Common Stock issued and outstanding, of which we own 85%. In accordance with SAB No. 51, we have accounted for the issuance of our subsidiary’s stock as a capital transaction. Considering that AIH is essentially a non-operating entity, and that the capital infusion was meant for commencement of business development in Asia region, gain recognition was not appropriate.

Effective June 30, 2006, AlphaRx International Holdings Limited. (“AIH”) acquired 100% of AlphaRx Life Sciences Ltd. (“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.

During November 2006 we signed feasibility and option agreement with a large U.S. based pharmaceutical company. Under the agreement we will use our proprietary nanoparticle drug delivery platforms to formulate three products to enhance their effectiveness. Two products are currently marketed products. Should our delivery platform be adopted we will be eligible to receive milestone payments and royalty payments based on future product sales utilizing our delivery technology. We generated \$76,000 in consulting revenues in relation to the reformulations during fiscal 2007.

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.

## **RESULTS OF OPERATIONS**

### **Year ended September 30, 2007 as compared to year ended September 30, 2006**

#### **Consulting Revenue**

We completed our provision of services during fiscal 2007 in conjunction with a feasibility and option agreement for three of our formulas with a pharmaceutical company, generating \$76,000 in consulting revenue, with no comparable revenues generated for the same period a year ago.

#### **License Fees and Royalties**

License fees and royalties totalled \$81,602 for the year ended September 30, 2007 – derived from sales of Indaflex via Farmaceutica Andromaco, S.A. de C.V. (“Andromaco”) in Mexico. This compares to \$24,774 derived for the year ended September 30, 2006. We also generated initial milestone license payments during 2006 in the amount of \$1,000,000 from Proprius Pharmaceuticals, Inc. with no comparable milestones earned in the fiscal year ended September 30, 2007. We continue to work with Proprius Pharmaceutical Inc. in determining the nature and extent of the next clinical trials to initiate in relation to Indaflex™.

#### **Royalties from Joint Venture**

We generated \$12,839 in royalties from our joint venture Alpha AP Inc. during the year ended September 2007 with no comparable royalties generated for the same period a year ago.

#### **General and Administrative Expenses**

General and administrative expenses were \$1,023,684 for the year ended September 30, 2007 as compared to \$1,944,910 incurred for the same period a year ago, a decrease of \$921,226 or about 47%. Stock based compensation expense totalled \$15,752 for the year ended September 30, 2007 as compared to \$717,117 for the year ended September 30, 2006, a decrease of \$701,365 or about 98%. The majority of options issued by the Company were fully vested during 2006 (22,430,000), and only 3,290,000 options vested in October 2007 (the majority of the stock compensation expense for these options was therefore also incurred in fiscal 2006 causing the reduction in this expense year over year).

Warrant amortization was \$318,718 for the year ended September 30, 2007 as compared to \$251,720 in 2006, an increase of \$66,998 or about 27%. There remains about \$66,000 in warrant amortization to be expensed in fiscal 2008 and no further stock based compensation expense related to options outstanding as at September 30, 2007. We anticipate issuance of additional options and warrants in the future, which will continue to result in stock based compensation expense and may result in warrant amortization expense.

We incurred about \$14,000 in expenses related to discontinued operations during 2007 as compared to about \$197,000 in the year ended September 30, 2006, a decrease of about \$183,000. Expenses related to discontinued operations (sales of Flexogan in Canada) will be nominal in the future.

We incurred about \$141,000 in administrative expenses during the year, in relation to AlphaRx International Holdings Limited and AlphaRx Life Sciences Ltd., our 85% owned subsidiaries operating out of China as compared to about \$194,000 incurred during 2006, a decrease of about \$53,000. We incurred \$214,905 in administrative consulting and salaries during 2007 as compared to \$265,286 incurred in the same period a year ago, a decrease of \$50,381 or about 19%.

### **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 both in China via our 85% owned subsidiary AlphaRx Life Sciences Ltd. and in Canada via our wholly owned subsidiary AlphaRx Canada Ltd.

During 2007 we incurred research and development expenses related to various initiatives including clinical animal trials with Vansolin™ and Zysolin™ used for serious infections such as lung inflammation and nosocomial pneumonia, Dicloflex™, an eye-drop formula used to treat ocular inflammation and pain, and ARX828, an orally-administered, potent and selective inhibitor of iNOS (Inducible Nitric Oxide Synthase).

We incurred a total of \$727,046 in research and development during 2007 as compared to \$1,417,700 incurred during the year ago period, a decrease of about \$690,654 or about 49%. During 2006 we incurred about \$994,000 related to Indaflex clinical trials with no comparable expense during 2007. Effective April 2006 all costs related to Indaflex clinical trials and commercialization are being borne by Proprius Pharmaceuticals, Inc. in return for full commercialization and sub-licensing rights in the U.S and other regions.

Offsetting the decrease in research and development related to Indaflex, we incurred about \$205,000 in research and development in China during 2007 as compared to \$9,995 during 2006, an increase of about \$194,970. We are utilizing more competitive resources in Asia in the drug research fields as compared to North American costs and will continue to pursue cost effective development of our drug candidates and commercial potential in China and other regions.

We incurred \$166,591 in research and development consulting fees in North America for the year ended September 30, 2007 as compared to about \$77,355 during 2006 for non-Indaflex initiatives, an increase of \$89,236 or about 115%.

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.

### **Sales and Marketing Expenses**

Sales and marketing expenses totalled \$3,750 for the year ended September 30, 2007 as compared to \$94,140 incurred during the same period a year ago, a decrease of \$90,390 or about 96%. We are focusing our resources on research and development of drug candidates and are not actively marketing any of our products or potential products. We have sales arrangements in place for the payment of commissions but only in the event of receipt of milestone payments from our license arrangements.

Sales commissions will continue in future, based on collection of license fee milestones. We also expect to continue business development expenditures, and sales consulting based on opportunities available to

us. We no longer intend to incur expenses related to marketing of our products, as our existing and future business partners and licensees will be involved in the selling of our products, and related marketing expenditures.

### **Depreciation Expense**

Depreciation expense totalled \$92,279 for the year ended September 30, 2007 as compared to \$74,307 incurred for the same period a year ago, an increase of \$17,973 or about 24%. Our capital asset purchases were \$6,289 for the year ended September 30, 2007. Capital asset purchases during 2006, primarily scientific research equipment, in the amount of \$124,011 experienced a full year of depreciation during 2007, leading to the increase in depreciation expense as compared to 2006, when they experienced only a six-month depreciation expense.

### **Interest Expense**

We incurred \$122,600 in net interest expense during 2007 as a result of our borrowings and the issuance of promissory notes yielding interest ranging from 10% - 12% per annum. This compares to \$67,410 incurred during 2006. To mitigate future interest expense, we converted \$1,169,793 in promissory notes into shares of Common Stock of the Company during September 2007.

### **Minority Interest**

We issued 1,500 shares of our subsidiary's Common Stock (AlphaRx International Holdings Limited "AIH") to New Super Limited ("NSL") in June, 2006 in exchange for a cash infusion of \$HK 10 million (about \$1,288,826). There are presently 10,000 shares of Common Stock of AIH issued and outstanding, of which we own 85%. In accordance with SAB No. 51, we have accounted for the issuance of our subsidiary's stock as a capital transaction. A minority interest credit of \$44,297 for the year ended September 30, 2007 (\$33,316 for the year ended September 30, 2006) has resulted in a corresponding reduction of our consolidated expenses, this amount representing NSL's portion of AIH's loss.

### **Net Loss before Discontinued Operations**

The above income and expenses resulted in a net loss before discontinued operations of \$1,754,621 for the year ending September 30, 2007 as compared to a net loss of \$2,540,377 incurred for the same period a year ago.

### **Discontinued Operations**

We determined to discontinue direct sales during 2006 of Flexogan because: (a) we were not able to source a qualified marketing partner to take over direct sales of Flexogan; (b) we did not have adequate financial resources or expertise to market Flexogan on a longer term basis, and (c) we concluded there was a better overall opportunity for success if we focused on drug development and enhancement while allowing our partners and potential partners to market our products in return for royalties and, or license fees.

Net Income from discontinued operations, representing sales of Flexogan was \$4,385 for the year ended September 30, 2007 as compared to \$18,084 for the same period a year ago, a reduction of \$13,700 or about 76%. Direct sales of Flexogan will be nominal in the future.

### **Net Loss**

Including the loss from discontinued operations and all other expense and income items described above, we incurred a net loss of \$1,750,236 for the year ended September 30, 2007 as compared to a net loss of \$2,522,293 for the year ended September 30, 2006.

### **Cumulative Translation Adjustment**

The cumulative translation adjustment stems from unrealized foreign exchange gains and losses stemming from translation of foreign currency subsidiaries into U.S. dollars. Although the cumulative translation adjustment is reflected in the statement of operations, it is reflected after the net loss and flows into shareholders' equity directly. The cumulative translation adjustment was \$1,280 for the year ended September 30, 2007 as compared to \$5,329 for the year ended September 30, 2006.

### **Year ended September 30, 2006 as compared to year ended September 30, 2005**

**Note that certain expense items relating to 2006 have been reclassified in 2007 in order to make them comparable to the 2007 presentation. The discussion below compares the expense items in 2006 before current year reclassifications of those expense items and should be read in conjunction with the financial statements filed with our 2006 10KSB filed on or about December 21, 2006. The reclassifications relate to combining Stock Based Compensation Expense into General and Administrative expenses, and reclassifying the expenses relating to discontinued operations into General and Administrative expenses.**

### **License Fees and Royalties**

In keeping with our central strategy of seeking alliances with larger pharmaceutical companies, we signed a license agreement with Proprius Pharmaceuticals, Inc. during April 2006. As a result we recognized and received \$1 million in license fees during the year – our first such revenue stream. Total revenues for the year ended September 30, 2006 were \$1,024,774 as compared to \$4,302 generated a year ago, an increase of \$1,020,472. Royalty revenues from Indaflex sales in Mexico increased to \$24,774 for the year ended September 30, 2006 as compared to \$4,302 generated a year ago. Royalty revenues continue to increase based on increased sales of Indaflex in Mexico.

### **General and Administrative Expenses**

General and administrative expenses including stock based compensation were \$813,231 for the year ended September 30, 2006 as compared to \$650,965 incurred for the same period a year ago, an increase of \$162,266 or about 25%. We incurred about \$194,000 in administrative expenses during the year, in relation to the establishment of Alpharx International Holdings Limited and Alpha Life Sciences Ltd., our 85% owned subsidiaries. The major administrative expenses related to our new subsidiaries included hiring of a general manager for ALS and AIH, initial accounting, legal, regulatory applications and related travel for our products in China and Hong Kong. There was no comparable expense in 2005.

### **Stock Based Compensation Expense and Warrant Amortization**

Stock based compensation expense and warrant amortization totalled \$968,837 for the year ended September 30, 2006 as compared to \$2,009,920 for the same period a year ago. We issued warrants in conjunction with promissory notes during the year ended September 30, 2006. Warrant amortization for the year totalled \$251,720 with no comparable expense in the previous year. We also issued 3,290,000 options during the year, resulting in \$717,117 in total stock based compensation expense. This compares to issuance of 20,710,000 options during the year ended September 30, 2005, which resulted in stock

based compensation expense of \$2,009,920. There remains about \$253,000 in warrant amortization to be expensed in fiscal 2007 as well as \$10,720 in stock based compensation expense related to issuance of options during 2006. We anticipate issuance of additional options and warrants in the future, which will continue to result in stock based compensation expense and may result in warrant amortization expense.

### **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 now incurring research and development expenses both in China for oncology product initiatives and in Canada for all other product initiatives.

During 2006 we stopped incurring costs related to Indaflex clinical trials. Effective April, 2006 all future costs related to Indaflex clinical trials and commercialization are being borne by Proprius Pharmaceuticals, Inc. in return for full commercialization and sub-licensing rights in the U.S and other regions.

Research and development expenses totalled \$1,417,700 for the year ended September 30, 2006 as compared to \$1,337,503 incurred for the same period a year ago, an increase of \$80,197 or about 6%. We incurred about \$994,000 related to Indaflex clinical trials during 2006 as compared to about \$1,170,000 during 2005, a decrease of about \$176,000. Offsetting this decrease were additional expenditures related to outside consultants of approximately \$118,000, and certain salaried staff now focusing on other initiatives, increased equipment leases, and research expenditures commencing in China.

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.

### **Sales and Marketing Expenses**

Sales and marketing expenses totalled \$59,889 for the year ended September 30, 2006 as compared to \$21,021 incurred during the same period a year ago, an increase of \$38,868 or about 185%. Sales commission of \$50,000 was paid in 2006 related to license fees collected with no comparable expense in 2005.

Sales commissions will continue in future, based on collection of license fee milestones. We also expect to continue business development expenditures, and sales consulting. We no longer intend to incur expenses related to marketing of our products, as our business partners and licensees will be involved in the selling of our products, and related marketing expenditures.

### **Depreciation Expense**

Depreciation expense totalled \$74,307 for the year ended September 30, 2006 as compared to \$54,077 incurred for the same period a year ago, an increase of \$20,230 or about 37%. We purchased about \$124,000 in capital assets, primarily scientific research and testing equipment during 2006, leading to an increase in depreciation.

### **Interest Expense**

We incurred \$67,410 in interest expense during 2006 as a result of our borrowings and the issuance of promissory notes yielding interest ranging from 10% - 12% per annum. This compares to \$22,804 in net

interest income generated during 2005. Interest income was generated during 2005 from cash on deposit, such cash being sourced from a private placement completed during September 2004.

### **Minority Interest**

We issued 1,500 shares of our subsidiary's Common Stock (AlphaRx International Holdings Limited "AIH") to New Super Limited ("NSL") in June, 2006 in exchange for a cash infusion of \$HK 10 million (about \$1,288,826). There are presently 10,000 shares of Common Stock of AIH issued and outstanding, of which we own 85%. In accordance with SAB No. 51, we have accounted for the issuance of our subsidiary's stock as a capital transaction. A minority interest credit of \$33,316 for the year ended September 30, 2006 has resulted in a corresponding reduction of our consolidated expenses, this amount representing NSL's portion of AIH's loss.

### **Net Loss before Discontinued Operations**

The above income and expenses resulted in a net loss before discontinued operations of \$2,343,284 for the year ending September 30, 2006 as compared to a net loss of \$4,046,380 incurred for the same period a year ago.

### **Discontinued Operations**

During 2003 the Company introduced Flexogan products to the Canadian market. Marketing of these products was underway, and initial orders from customers were received. Further growth in sales resulted in 2004, primarily as a result of one order from a national drug chain. Repeat orders were proving to be more challenging during 2004 and 2005, even while an expanded marketing campaign was underway.

We completed a private placement during late 2004 in order to fund our core research and development activities as well as continuation of our marketing campaign for Flexogan. Although substantial amounts were spent on marketing during 2005, sales growth did not materialize. This was due, in large part, to new competitive product introductions into the pain relief segment of the market by large pharmaceutical companies and other independents. Marketing and sales programs for these competitive products were substantial, and significantly larger than we could afford if we were to compete effectively. We continued to sell our products into 2006 while seeking marketing and sales partners to take over the Flexogan line.

We determined to discontinue direct sales of Flexogan because: (a) we were not able to source a qualified marketing partner to take over direct sales of Flexogan; (b) we did not have adequate financial resources or expertise to market Flexogan on a longer term basis, and (c) we concluded there was a better overall opportunity for success if we focused on drug development and enhancement while allowing our partners and potential partners to market our products in return for royalties and, or license fees.

Loss from discontinued operations described above totalled \$179,009 for the year ended September 30, 2006 as compared to a loss of \$805,744 for the same period a year ago, a reduction of \$626,735. The reduction in loss was due primarily to reduced marketing expenditures. For the year ended September 2006 we incurred \$34,251 in sales and marketing expenses for Flexogan products as compared to \$640,538 incurred for the same period a year ago, a reduction of \$606,287.

### **Net Loss**

Including the loss from discontinued operations and all other expense and income items described above, we incurred a net loss of \$2,522,293 for the year ended September 30, 2006 as compared to a net loss of \$4,852,124 for the year ended September 30, 2005.

## **Cumulative Translation Adjustment**

The cumulative translation adjustment stems from unrealized foreign exchange gains and losses stemming from translation of foreign currency subsidiaries into U.S. dollars. Although the cumulative translation adjustment is reflected in the statement of operations, it is reflected after the net loss and flows into shareholders' equity directly. There was no comparable cumulative translation adjustment in 2005.

## **Liquidity And Capital Resources**

As of September 30, 2007 the Company had a working capital deficiency of \$559,439 as compared to a working capital deficiency of \$176,129 as at September 30, 2006. We have licensing arrangements with Andromaco, Proprius Pharmaceuticals, Inc. and AlphaAP Inc., which provide our royalty and licensing revenues based on achieving milestones and/or sales of our products. We also generate certain consulting revenues 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, and to that effect, we have borrowed approximately \$154,000 subsequent to September 30, 2007 for working capital purposes. We have also issued 5,000,000 shares of Common Stock subsequent to September 30, 2007 for working capital purposes. 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 shareholders, 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 shareholders.

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, but unrelated to direct sales.

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, discontinued operations liabilities and accrued liabilities, the Company is committed to the following contractual obligations and commitments.

	<b>2008</b>	<b>2009</b>	<b>2010</b>
Operating Lease Obligations	\$ 75,849	\$25,788	\$2,194
Notes Payable (1)	167,804	-	-
Total	\$243,653	\$25,788	\$2,194

(1) Includes accrued interest accruing at rates ranging from 10% -12% per annum and is net of a discount of \$65,962.

### **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 2007 AND 2006**

The financial statements for the fiscal year ending September 30, 2007 and 2006, required by Item 7 are set forth on pages F-1 through F-18.

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

Not applicable

### **ITEM 8A. CONTROLS AND PROCEDURES**

The Company's chief executive officer and the Company's chief financial officer and principal accounting officer are responsible for establishing and maintaining disclosure controls and procedures for the Company.

#### Evaluation of Disclosure Controls and Procedures

Based on their evaluation as of September 30, 2007, the chief executive officer and the chief financial 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 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.

#### 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.

### 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 18, 2007, 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	44	Chairman of the Board of Directors Chief Executive Officer	since 8/8/1997
Marcel Urbanc, C.A.	51	Chief Financial Officer and Principal Accounting Officer	
Joseph Schwarz, Ph.D	53	Chief Scientist	
Michael Weisspapir, MD, Ph.D	51	Chief Medical Officer	
Sandro Persia	37	Secretary/Treasurer	
Dr. David Milroy	56	Director	since 4/15/2003
Dr. Ford Moore	56	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 the Seneca College.

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 non-management directors received annual fees of CAD \$6,250 (\$3,125 per director) for the year ended September 30, 2007 as compared to \$6,000 for the previous year. 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 or our audit committee. The two independent board members who sat on the audit committee had no financial experience. It was determined that the audit committee be disbanded until appropriate qualified independent directors can be located. Based on the size of the organization – seven full time employees, and 3 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% shareholders 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, 2007, 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, 2007, 2006 and 2005 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	2007	51,068	0	0

President & C.E.O.	2006	110,279	0	800,000
	2005	45,510	0	13,000,000
Joseph Schwarz Chief Scientist	2007	114,170	0	0
	2006	123,946	0	200,000
Michael Weisspapir Chief Medical Scientist	2005	125,267	0	3,000,000
	2007	103,073	0	0
Marcel Urbanc Chief Financial Officer and Principal Accounting Officer	2006	111,508	0	200,000
	2005	114,534	0	3,000,000
Marcel Urbanc Chief Financial Officer and Principal Accounting Officer	2007	34,473	0	0
	2006	25,939	0	200,000
Marcel Urbanc Chief Financial Officer and Principal Accounting Officer	2005	52,664	0	270,000

#### 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, 2007 by the named executive officers. Value of unexercised options is considered to be the difference between exercise price and market price of \$0.08 per share on September 28, 2007 (last trading day prior to September 30, 2007). No options were exercised by the named executive officers during fiscal 2007 or any prior year.

<u>Name</u>	<u>Number of Exercisable Options at</u>		<u>Value of Unexercised In-The-Money</u>	
	<u>Fiscal</u>	<u>Year-End</u>	<u>Options at</u>	<u>Options at</u>
	<u>Exercisable/Unexercisable</u>	<u>(#)</u>	<u>Fiscal</u>	<u>Year-End</u>
			<u>Exercisable/Unexercisable</u>	<u>(#)</u>
Michael M. Lee	14,350,000/0		\$4,000/\$0	
Marcel Urbanc	550,000/0		\$1,000/\$0	
Joseph Schwarz	3,530,000/0		\$1,000/\$0	
Michael Weisspapir	3,480,000/0		\$1,000/\$0	

\* On October 17, 2005 the following options were granted to the above named executive officers: M. Lee – 800,000; J. Schwarz – 200,000; M. Weisspapir – 200,000; and M Urbanc – 200,000. These options vested 100% during October 2006, and are exercisable at \$0.075 each. These are the only unexercised “in the money” options as at September 30, 2007.

### 2003 Stock Option Plan

The 2003 Plan is administered by the board of directors, which determines which directors, officers, employees, consultants, scientific advisors and independent contractors of the Corporation 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. No options may be granted under the 2003 Plan more than ten years after the date the 2003 Plan is adopted by the board of directors, and no options granted under the 2003 Plan may be exercised after the expiration of ten years from date of grant. The board of directors may delegate administration of the 2003 Plan, 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.

We have reserved 1,500,000 common shares under the 2003 Plan for issuance under option or restricted stock purchase agreements. As of January 26, 2004 there were 645,000 options granted under this Plan. The 2003 Stock Option Plan was considered no longer adequate for our future needs and hence the Company adopted the 2004 Plan described below.

## 2004 Stock Option Plan

The 2004 Plan is 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 Plan, 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 Plan 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 Plan (other than increases to reflect stock dividends, stock splits or other relevant capitalization changes). There are 24,000,000 authorized shares of our Common Stock that are not issued or outstanding, reserved for implementation of the 2004 Plan.

On November 15, 2004 the Company granted 13,220,000 options under the 2004 Plan to 14 individuals including officers, directors and consultants. On January 10, 2005 the Company granted 7,000,000 options under the 2004 Plan to Michael Lee – President. On February 8, 2005 the Company granted 390,000 options under the 2004 Plan to 5 individuals including officers, employees and consultants. On May 25, 2005 the Company granted 100,000 options under the 2004 Plan to a consultant of the Company. On October 17, 2005 the Company granted 3,290,000 options to employees and directors of the Company as well as to one external consultant. There are no options remaining to be granted under the 2004 Plan.

## 2006 Stock Option Plan

A majority of shareholders approved the 2006 Option Plan at the Annual General Meeting held March 29, 2006. Under this plan up to 5,000,000 options may be granted. As of December 17, 2007 we have granted 90,000 of these options exercisable at \$0.10 per share of Common Stock.

### 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	25,810,000	\$0.16	4,910,000 *
Equity	None	None	None

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Compensation  
Plans Not  
Approved by  
Security Holders

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Total	25,810,000	\$0.16	4,910,000
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\* This amount represents options made available to management, employees and consultants as approved by shareholders at the Annual General Meeting held March 29, 2006. None of these options have been granted to date.

As at December 18, 2007, no options have been exercised from any of the above-mentioned plans.

There are 86,203,964 shares of Common Stock issued and outstanding as at December 18, 2007.

### 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 18, 2007 there were 86,203,964 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>	11,327,886 shares	13.14%
Joseph Schwarz <sup>(2)</sup>	637,500 shares	0.74%
Ford Moore <sup>(3)</sup>	3,398,179 shares	3.94%
Michael Weisspapir <sup>(2)</sup>	457,500 shares	0.53%
David Milroy <sup>(3)</sup>	1,756,933 shares	2.04%
Marcel Urbanc <sup>(2)</sup>	120,000 shares	0.14%
Sandro Persia <sup>(2)</sup>	16,000 shares	0.02%
All directors and officers as a group (7 persons)	10,322,265 shares	20.55%

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

### Item 12. Certain Relationships And Related Party Transactions

During the year ended September 30, 2007 Michael Lee CEO and Director has loaned us about \$89,597 including accrued interest of \$11,421. These notes carry interest at 12% per annum and are unsecured. These funds were used for general corporate purposes. We also converted \$85,960 in promissory notes owing to Mr. Lee into 1,719,000 shares of Common Stock at a conversion price of \$0.05 on September 21, 2007.

During the year ended September 30, 2006, Michael Lee loaned us \$153,148 on which \$16,357 of interest was accrued. We issued promissory notes to Mr. Lee promising to repay the loan amounts within one year issuance.

On September 21, 2007 we converted all of the promissory notes and accrued interest owing to Dr. Ford Moore or \$145,280 into 2,905,600 shares of Common Stock at a conversion price of \$0.05 per share.

During the year ended September 30, 2006, Dr. Ford Moore, Director, has loaned us \$107,363 on which \$10,056 in interest has accrued. These notes carried interest at the rate of 12% per annum and were unsecured. These funds were used for general corporate purposes.

On September 21, 2007 we converted all of the promissory notes and accrued interest owing to Dr. David Milroy or \$66,597 into 1,331,933 shares of Common Stock at a conversion price of \$0.05 per share.

During the year ended September 30, 2006, Dr. David Milroy, Director, loaned us \$61,873 on which \$7,708 in interest was accrued. We issued promissory notes to Dr. Milroy promising to repay the loan amounts within one year of issuance. These notes carried interest at the rate of 12% per annum and were unsecured. These funds were used for general corporate purposes.

The Company's managing director of its 85% owned subsidiary -AlphaRx International Holdings Limited, is Edward Lee, the brother of Michael Lee – President & CEO of the Company. Edward Lee was paid approximately \$77,000 for the year ended September 30, 2007 in base salary plus statutory pension and benefit contributions. The Company is also committed to pay \$25,000 to Edward Lee in conjunction with the sourcing of funds for the purchase of Common Stock subsequent to September 30, 2007.

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, in which the amount involved exceeds \$60,000 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-KSB, which is incorporated herein by reference.

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

On May 13, 2005 we informed the SEC of the necessity to restate certain prior periods based on the beneficial conversion feature related to the issuance of senior convertible debt during the period February to April 2004.

On May 16, 2005 we filed an amended 8K regarding the original 8K filed May 13, 2005.

On May 18, 2005 we filed an 8K regarding the entry into a material definitive agreement between AlphaRx International Holdings Limited ("AIH"), a wholly owned subsidiary, and Basin Industrial Ltd., an independent, wholly owned subsidiary of Advanced Pharmaceutical Ltd.

On June 3, 2005 we filed an 8K regarding a press release issued on June 2, 2005 commenting on Indaflex Phase 1 clinical trial results.

On June 6, 2005 we filed an 8K regarding a Joint Venture established between AIH and Basin Industrial Ltd. AlphaAP Inc., the Joint Venture to be established, will be used to market certain products in the Asia Pacific Region.

On June 17, 2005 we filed an 8K regarding the official launch of Indaflex in Mexico. Indaflex must complete further clinical trials in Canada and the United States to be able to market Indaflex in those countries.

On June 28, 2005 we filed an 8K reporting that the test batches for our Indaflex clinical trials were completed.

On June 29, 2005 we filed an 8K describing in more detail, the Joint Venture agreement between AIH (our wholly owned subsidiary) and Basin Industrial Ltd. (a wholly owned subsidiary of Advanced Pharmaceutical Ltd.). Both parties will own 50% of AlphaAP Inc., a company to be established.

On July 13, 2005 we released an 8K indicating that Health Canada provided approval for Phase 2 human trials with Indaflex.

On July 14, 2005 we filed an 8K regarding board approval to allow AlphaAP Inc. (50% owned Joint Venture) to buy up to 10% of our outstanding Common Stock in the open market.

On July 18, 2005 we filed an 8K regarding a press release, providing an update on our antibiotic development program.

On April 19, 2006 we reported on a press release regarding a license agreement that we entered into with Proprius Pharmaceuticals, Inc. Under the agreement, we will receive an upfront payment of \$1 million and will be eligible to receive additional clinical and sales milestone payments of up to \$116 million for the successful development and commercialization of Indaflex, as well as royalties on all future sales.

On May 3, 2006 we reported on a press release regarding a joint venture agreement entered into between our wholly owned subsidiary – AlphaRx International Holdings Ltd and China Lianyungang City Golden Enterprises Limited (“China Party”) to establish a Joint Venture company in mainland China. The China Party has agreed to provide funding of up to RMB 250 million (about \$31 million) to establish a manufacturing facility and a distribution network in order to produce and market certain products and to develop new novel branded generic products in China.

On November 6, 2006, we filed an 8K reporting on a Feasibility and Option Agreement with a global pharmaceutical company based in U.S. We have concluded our feasibility agreement as of September 30, 2007 and are not contracted for any further license fee, consulting fee, or other payments.

On December 21, 2006 we issued a press release announcing results of operations for the year ended September 30, 2006.

On May 14, 2007 we issued a press release regarding the top line results from the Indaflex 2.5% Topical Indomethacin Cream exploratory phase II clinical trials in osteoarthritis of the knee (INDF-200).

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.

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

**Audit Fees:** For the year ended September 30, 2007 we incurred approximately \$27,751 in external audit fees, and quarterly reviews in connection with statutory and regulatory filings to our principal accountants as compared to approximately \$25,814 for the year ended September 30, 2006.

**Audit-Related Fees:** For the years ended September 30, 2007 and 2006 we incurred no fees for assurance and related services by the principal accountant.

**Tax Fees:** For the year ended September 30, 2007 and 2006 we incurred no tax related fees to our principal accountant.

**All Other Fees:** For the year ended September 30, 2007 and 2006 we paid no other fees to our principal accountant.

**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 19, 2007

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 19, 2007

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-SB filed on June 16, 2000).
3(i)(b)	*	Amendment to Certificate of Incorporation dated January 26, 2000 (incorporated by reference to the Form 10-SB 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)
31.1	43	Certification of C.E.O. Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	44	Certification of C.F.O. Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	45	Certification of Michael Lee pursuant to Section 1350 of Chapter 63 of Title 18 United States Code.
32.2	46	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-KSB 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 19, 2007

/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-KSB 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 19, 2007

/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-KSB for the period ending September 30, 2007 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-KSB report fully complies with the requirements of Section 13(a) of the Exchange Act; and
2. The information contained in this 10-KSB report fairly presents, in all material respects, the financial condition and result of operations of AlphaRx, Inc.

/s/ Michael Lee

Michael Lee

President and Chief Executive Officer

December 19, 2007

**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-KSB for the period ending September 30, 2007 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-KSB report fully complies with the requirements of Section 13(a) of the Exchange Act; and
4. The information contained in this 10-KSB report fairly presents, in all material respects, the financial condition and result of operations of AlphaRx, Inc.

/s/ Marcel Urbanc

Marcel Urbanc

Chief Financial Officer and

Principal Accounting Officer

December 19, 2007

**ALPHARx, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS AND AUDIT REPORT**  
**SEPTEMBER 30, 2007 AND 2006**

TABLE OF CONTENTS

<u>CONSOLIDATED FINANCIAL STATEMENTS FOR 2007 AND 2006</u>	PAGE (S)
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	F-2
CONSOLIDATED BALANCE SHEETS FOR 2007 AND 2006	F-3
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS FOR 2007 AND 2006	F-4
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY/(DEFICIT) FOR 2007 AND 2006	F-5
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR 2007 AND 2006	F-6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	F-7-18

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of AlphaRx, Inc. (incorporated in the State of Delaware) as at September 30, 2007 and 2006 and the related consolidated statements of operations and comprehensive loss, cash flows and stockholders' equity (deficit) 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 audit 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, 2007 and 2006 and the results of its operations and comprehensive loss and its cash flows for the years then ended in accordance with generally accepted accounting principles in the United States of America.

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. 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  
December 3, 2007

Chartered Accountants  
Licensed Public Accountants

**ALPHARx, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT SEPTEMBER 30, 2007 AND 2006**  
(All amounts in US Dollars)

	<b>2007</b>	<b>2006</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 128,328	\$ 987,753
Marketable Securities	-	176,418
Accounts Receivable, net (note 3)	11,804	10,771
Prepaid Expenses and Other Assets	6,582	9,506
Discontinued Operations (note 4)	-	4,474
<b>TOTAL CURRENT ASSETS</b>	<b>146,714</b>	<b>1,188,922</b>
<b>PROPERTY, PLANT &amp; EQUIPMENT, net (note 5)</b>	<b>217,626</b>	<b>282,679</b>
<b>TOTAL ASSETS</b>	<b>364,340</b>	<b>1,471,601</b>
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities (note 6)	519,519	532,509
Notes Payable (note 7)	167,804	780,323
Discontinued Operations (note 4)	18,829	52,218
<b>TOTAL CURRENT LIABILITIES</b>	<b>706,152</b>	<b>1,365,050</b>
<b>MINORITY INTEREST (note 9)</b>	<b>116,986</b>	<b>161,283</b>
Going Concern (note 1)		
Contingencies and Commitments (notes 8 and 10)		
Related Party Transactions (note 15)		
<b>SHAREHOLDERS' DEFICIT</b>		
Common Stock: \$ 0.0001 par value, Authorized: 250,000,000 shares; Issued and outstanding: 2007: 81,203,964; 2006: 57,508,112 (notes 11,13,14 and 18)	8,122	5,752
Additional paid-in capital	15,824,162	14,479,082
Accumulated Other Comprehensive Loss	(6,609)	(5,329)
Deficit	(16,284,473)	(14,534,237)
<b>TOTAL SHAREHOLDERS' DEFICIT</b>	<b>(458,798)</b>	<b>(54,732)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT</b>	<b>\$ 364,340</b>	<b>\$ 1,471,601</b>

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, 2007 AND 2006**  
**(All amounts in US Dollars)**

	<b>2007</b>	<b>2006</b>
Consulting Revenue	\$ 76,000	\$ -
License Fees and Royalties	81,602	1,024,774
Royalties from Joint Venture	<u>12,839</u>	<u>-</u>
<b>TOTAL REVENUES</b>	<u>170,441</u>	<u>1,024,774</u>
General and Administrative Expenses	1,023,684	1,944,910
Research and Development Expenses	727,046	1,417,700
Sales and Marketing Expenses	3,750	94,140
Depreciation	<u>92,279</u>	<u>74,307</u>
<b>LOSS FROM OPERATIONS</b>	<u>(1,676,318)</u>	<u>(2,506,283)</u>
<b>OTHER EXPENSES</b>		
Interest Expense, net	(122,600)	(67,410)
<b>LOSS BEFORE INCOME TAXES</b>	<u>(1,798,918)</u>	<u>(2,573,693)</u>
Income Tax (note 12)	-	-
<b>LOSS BEFORE MINORITY INTEREST</b>	<u>(1,798,918)</u>	<u>(2,573,693)</u>
Minority Interest (note 9)	<u>44,297</u>	<u>33,316</u>
<b>LOSS BEFORE DISCONTINUED OPERATIONS</b>	<u>(1,754,621)</u>	<u>(2,540,377)</u>
Gain from Operations of Discontinued Component (note 4)	<u>4,385</u>	<u>18,084</u>
<b>NET LOSS</b>	<u>(1,750,236)</u>	<u>(2,522,293)</u>
Cumulative Translation Adjustment	<u>(1,280)</u>	<u>(5,329)</u>
<b>COMPREHENSIVE LOSS</b>	<u>\$(1,751,516)</u>	<u>\$(2,527,622)</u>
Net Loss per Common Share, Basic and Diluted, before and after discontinued operations (note 11)	<u>\$(0.03)</u>	<u>\$(0.04)</u>
Weighted Average Number of Common Shares Outstanding	<u>60,096,837</u>	<u>57,508,112</u>

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

**ALPHARx, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY/(DEFICIT)**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006**  
**(All amounts in US Dollars)**

	<u>Common Stock</u>					
	<u>Number of</u> <u>Shares</u>	<u>Amount</u>	<u>Additional</u> <u>Paid in</u> <u>Capital</u>	<u>Accumulated</u> <u>Other Com-</u> <u>prehensive</u> <u>Loss</u>	<u>(Deficit)</u>	<u>Total</u> <u>Shareholders'</u> <u>Equity</u> <u>(Deficit)</u>
Balance as of September 30, 2005	57,508,112	\$5,752	\$12,163,243	-	\$(12,011,944)	\$157,051
Issuance of Stock Options for consulting services			233,838			233,838
Stock Based Compensation			483,279			483,279
Warrants			504,495			504,495
Net Loss 2006					(2,522,293)	(2,522,293)
Subsidiary Common Stock Issuance			1,094,227			1,094,227
Foreign Currency Translation				(5,329)		(5,329)
Balance as of September 30, 2006	57,508,112	\$5,752	\$14,479,082	\$(5,329)	\$(14,534,237)	\$(54,732)
Issuance of Stock for services	300,000	30	29,970			30,000
Warrants			131,905			131,905
Stock Based Compensation			15,752			15,752
Debt Conversion	23,395,852	2,340	1,167,453			1,169,793
Foreign Currency Translation				(1,280)		(1,280)
Net Loss 2007					(1,750,236)	(1,750,236)
Balance as of September 30, 2007	81,203,964	\$8,122	\$15,824,162	\$(6,609)	\$(16,284,473)	\$(458,798)

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, 2007 AND 2006**  
**(All amounts in US Dollars)**

	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ (1,750,236)	\$ (2,522,293)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	92,279	74,307
Warrant Amortization	318,718	251,720
Employee stock based compensation expense	15,752	483,279
Options/Common Stock Issued For Services Rendered	30,000	233,838
Changes in assets and liabilities:		
(Increase)/Decrease in Marketable Securities	176,418	(176,418)
Decrease/(Increase) in Accounts Receivable	(1,033)	29,475
Decrease in Prepaid Expenses	2,924	3,230
Accrued Interest on Notes Payable	12,538	65,333
Increase/(Decrease) in Accounts Payable and Accrued Liabilities	(12,990)	166,734
Discontinued Operations (note 4)	(28,915)	91,155
Minority Interest	<u>(44,297)</u>	<u>161,283</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u><b>(1,188,842)</b></u>	<u><b>(1,138,357)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Machinery and Equipment	<u>(6,289)</u>	<u>(124,011)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u><b>(6,289)</b></u>	<u><b>(124,011)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of 15% equity in subsidiary Common Stock	-	1,094,227
Issuance of Notes Payable net of repayment	<u>353,133</u>	<u>967,765</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u><b>353,133</b></u>	<u><b>2,061,992</b></u>
Effect of exchange rate changes on cash and cash equivalents	<u>(17,427)</u>	<u>(5,329)</u>
<b>NET INCREASE/(DECREASE) IN CASH</b>	<u><b>(859,425)</b></u>	<u><b>794,295</b></u>
<b>CASH, and cash equivalents, beginning of year</b>	<u><b>987,753</b></u>	<u><b>193,458</b></u>
<b>CASH, and cash equivalents, end of year</b>	<u><b>\$ 128,328</b></u>	<u><b>\$ 987,753</b></u>
<b>SUPPLEMENTARY DISCLOSURE:</b> The statement of cash flows has been prepared using the indirect method as defined under SFAS No. 95. On September 21, 2007 the Company converted promissory notes in the amount of \$1,169,793 into 23,395,852 shares of Common Stock.		
Income Tax Paid	<u>\$ -</u>	<u>\$ -</u>
Interest Paid	<u>\$ 45,183</u>	<u>\$ 5,073</u>

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

**ALPHARX INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007 AND 2006**  
**(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.

Effective April 22, 2005 AIH entered into a Joint Venture agreement with Basin Industrial Limited (a British Virgin Islands Company and a wholly-owned subsidiary of Advance Pharmaceutical Co. Ltd.). The Joint Venture, AlphaAP Inc., is involved in manufacturing and marketing of certain of the Company’s existing products.

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.

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). All material inter-company accounts and transactions have been eliminated.

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. Continuance of the Company as a going concern is dependent on its future profitability and on the on-going support of its shareholders, affiliates and creditors.

**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 and cash equivalents includes cash on hand, amounts on deposit with banks, and any other highly liquid investments purchased with a 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, 2007 the Company had only cash on deposit. As at September 30, 2006 the Company had a bank term deposit in the amount of \$855,318, with the remaining amounts being held as cash on deposit.

### **Trading Securities**

We consider our investment portfolio and marketable equity investments as trading in nature as defined in SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Accordingly, these investments are recorded at fair value, which is based on quoted market rates. Any gains and losses are recognized in earnings in the current period.

### **Fair Value of Financial Instruments**

The carrying amounts of the Company's accounts receivable, accounts payable, accrued liabilities, and notes payable approximates their fair values because of the short maturity of these instruments.

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

The fair value of each of the Corporation'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.

### **Inventory**

Inventory is recorded at the lower of cost and net realizable value. Cost is determined on the first-in first-out basis.

### **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 which is the method mandated by SFAS 52 where the functional currency is the foreign currency. 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 shareholders' equity.

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

The Company adopted FAS No.128, "Earnings per Share", which requires disclosure on the financial statements of "basic" and "diluted" earnings (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 accounts for income tax under the provision of Statement of Financial Accounting Standards No. 109, which requires recognition of 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 products, raw materials, lab supplies and other costs related directly to research and development of new and existing products.

## **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 not recognized until 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.

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 policy is not to accept returns, however, under certain circumstances returns are accepted to maintain good customer relations.

## **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. Significant estimates include the fair valuation of warrants issued and estimated lives of capital assets. 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, amortization, stock based compensation, and valuation allowances.

### **Long-Lived Assets**

The Company adopted the provisions of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of which has been superseded by SFAS No. 144. SFAS No. 144 requires that long-lived assets to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management used its best estimate of the undiscounted cash flows to evaluate the carrying amount and have determined that no impairment has occurred.

### **Intangible Assets**

Intangible assets with an indefinite useful economic life are tested annually for impairment and periodically if events or circumstances warrant such a test in accordance with SFAS 142. An impairment loss is recognized if the carrying amount exceeds the fair value.

### **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 us periodically based on best estimates available and historical data, as well as the economic and financial status of our 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 three licensees for all of its revenues. Should any of these licensees discontinue sales of our products, or stop commercialization efforts 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.

### **Stock Based Compensation**

In December 2004 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123(R) – "Share Based Payment" (SFAS 123(R)). SFAS 123(R) requires us to recognize compensation cost to 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 adopted the fair value accounting for employee stock options as per SFAS 123(R) using the modified

retrospective application method, effective April 1, 2005. Under this standard the Company records compensation cost related to unvested stock options by recognizing the unamortized fair value of those stock options as of the grant date over the remaining vesting period with no change in historical reported earnings.

### **Comprehensive Income**

The Company follows Statement of Financial Accounting Standards No. 130, “Reporting Comprehensive Income”. This statement establishes reporting standards and presentation methods of comprehensive income and its components. Comprehensive income is net income plus certain items that are recorded directly to shareholders’ 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**

SFAS 155- In February 2006, the FASB issued SFAS 155 “Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140”. This Statement amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, “Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.” SFAS 155 is effective in fiscal years beginning after September 15, 2006.

SFAS 156 – In March 2006, the FASB issued SFAS 156 “Accounting for Servicing of Financial Assets”. This Statement amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS 156 is effective in fiscal years beginning after September 15, 2006.

SFAS 157 – In September 2006, the FASB issued SFAS 157 “Fair Value Measurements”. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. SFAS 157 is effective in fiscal years beginning after November 15, 2007.

SFAS 158 – In September 2006, the FASB issued SFAS 158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)”. This Statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS 158 is effective as of the end of the fiscal year ending after December 15, 2006.

SFAS 159- In February 2007, the FASB issued SFAS 159 “The Fair Value Option for Financial Assts and Financial Liabilities – Including an amendment of FASB 115. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported

earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement by entities in the future.

FIN 48 – In June 2006, the FASB issued FIN 48 “Accounting for Uncertainty in Income Taxes”. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109 – Accounting for Income Taxes.

The Company believes that the above standards would not have a material impact on its financial position, results of operations or cash flows with the exception of SFAS 123(Revised), which does and may continue to have a material impact on results of operations.

### NOTE 3. ACCOUNTS RECEIVABLE

	2007	2006
Accounts receivable	\$ 11,804	\$ 10,771
Less: Allowance for bad debts	<u>-</u>	<u>-</u>
	<u>\$ 11,804</u>	<u>\$ 10,771</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.

### NOTE 4. DISCONTINUED OPERATIONS

We determined to discontinue direct sales of Flexogan during 2005 because: (a) we were not able to source a qualified marketing partner to take over direct sales of Flexogan; (b) we did not have adequate financial resources or expertise to market Flexogan on a longer term basis, and (c) we concluded there was a better overall opportunity for success if we focused on drug development and enhancement while allowing our partners and potential partners to market our products in return for royalty and, or license payments.

The statements of income and balance sheets for the Discontinued Operations are seen below:

<b>Income Statements</b>	2007	2006
Sales	\$ 4,385	\$27,176
Cost of Sales	<u>-</u>	<u>9,092</u>
Gross Margin	4,385	18,084
Income Taxes	<u>-</u>	<u>-</u>
Gain from Discontinued Operations	<u>\$ 4,385</u>	<u>\$ 18,084</u>
 <b>Balance Sheets</b>		
Other Assets	<u>-</u>	<u>4,474</u>
Total Current Assets	-	4,474
Accounts Payable and Accrued Liabilities	<u>18,829</u>	<u>52,218</u>

Total Current Liabilities	<u>18,829</u>	<u>52,218</u>
Net Assets (Liabilities)	<u>\$(18,829)</u>	<u>\$(47,744)</u>

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

	<b>2007</b>	<b>2006</b>
Leasehold Improvements	\$ 22,891	\$ 20,481
Furniture & Fixtures	27,546	35,770
Machinery & Equipment	<u>380,265</u>	<u>456,894</u>
<b>COST</b>	<u><u>430,702</u></u>	<u><u>513,145</u></u>
Less: Accumulated depreciation/amortization		
Leasehold Improvements	15,846	10,082
Furniture & Fixtures	14,852	19,492
Machinery & Equipment	<u>182,378</u>	<u>200,892</u>
	<u>213,076</u>	<u>230,466</u>
<b>NET</b>	<u><u>\$ 217,626</u></u>	<u><u>\$ 282,679</u></u>

The cost and accumulated depreciation for those capital assets, which are fully depreciated or amortized, have been removed.

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

Accounts payable and accrued liabilities are comprised of the following:

	<b>2007</b>	<b>2006</b>
Accounts Payable	\$ 359,131	\$ 334,046
Accrued Liabilities for services rendered but not invoiced as at September 30, 2007 and 2006	<u>160,388</u>	<u>198,463</u>
	<u><u>\$ 519,519</u></u>	<u><u>\$ 532,509</u></u>

Accrued liabilities as at September 30, 2006 included an amount of \$30,000, which was paid out in the form of Common Stock during fiscal 2007.

**NOTE 7. NOTES PAYABLE**

The Company and its subsidiaries issued \$221,228 in promissory notes, net of repayments during the year ended September 30, 2007. (\$967,765 during the year ended September 30, 2006). The Company also converted \$1,169,793 of Notes Payable including accrued interest into 23,395,852 shares of Common Stock during fiscal 2007. These promissory notes bear interest at rates of 10% - 12% per annum and are repayable on or before the first anniversary date of issuance. See also Note 15 – Related Party Transactions and Note 18 – Subsequent Events.

In conjunction with these promissory notes the Company issued warrants. (See also Note 14 – Warrants). This in turn required a discount to be established and amortized over the life of the promissory notes.

<b>September 30,</b>	<b>2007</b>	<b>2006</b>
Promissory Notes Issued, net of repayments and conversions:	\$221,228	\$967,765
Unamortized Discount	(65,962)	(252,775)
Interest accrued	<u>12,538</u>	<u>65,333</u>
Promissory Notes Payable	<u>\$167,804</u>	<u>\$780,323</u>

## **NOTE 8. LITIGATION LIABILITIES**

The Company received court documentation that the lawsuit filed against it in 2002 was dismissed as of May 2006. Accordingly the remaining litigation liability has been reversed, as the Company is no longer liable for any damages or legal fees related to this action.

## **NOTE 9. MINORITY 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 minority 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 10. COMMITMENTS**

### Operating Leases

The Company leases scientific research and development equipment, its main premises and an automobile. The aggregate minimum annual and total payments due under these operating leases are as follows:

<u>Year</u>	<u>Amount</u>
	\$
2008	75,849
2009	25,788
<u>2010</u>	<u>2,194</u>
<b><u>TOTAL</u></b>	<b><u>\$ 103,831</u></b>

## **NOTE 11. COMMON STOCK**

The Company is authorized to issue up to 250,000,000 shares of Common Stock. As of September 30, 2007, there are 81,203,964 shares of Common Stock issued and outstanding, with a stated par value of \$0.0001 per share. (2006 – 57,508,112 issued and outstanding)

During fiscal 2007 the Company issued 300,000 shares of Common Stock in exchange for services rendered. The Company also converted \$1,169,793 in promissory notes including accrued interest into 23,395,852 shares of Common Stock on September 21, 2007. See also Note 18 – Subsequent Events. There was no Common Stock issued during 2006.

Net Loss per share of Common Stock is not based on fully diluted shares since the effect would be anti-dilutive. The Company has warrants outstanding to purchase 14,336,663 shares of Common Stock (note 14) and options to purchase 30,720,000 shares of Common Stock (note 13) as at September 30, 2007 such that, on a fully diluted basis there would be 126,260,627 shares of Common Stock issued and outstanding if all warrants and all options were to be exercised. (As at September 30, 2006 there would be 147,840,803 shares outstanding on a fully diluted basis if all warrants and options were exercised). See also Note 18-Subsequent events for warrants which have expired since September 30, 2007.

## NOTE 12. INCOME TAXES

The regional sources of taxable income (loss) for the years ended September 30, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
North America	\$ (893,571)	\$(1,255,794)
Outside North America	<u>(293,528)</u>	<u>(205,123)</u>
	<u>\$(1,187,099)</u>	<u>\$(1,460,917)</u>

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

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
North America	\$ 3,403,970	\$ 3,073,348
Outside North America	<u>44,029</u>	<u>30,768</u>
Less Valuation allowance	<u>3,447,999</u>	<u>3,104,117</u>
Net deferred tax assets	<u>                  -</u>	<u>                  -</u>

These losses expire in varying amounts between 2010 and 2026. The tax rates being used to determine deferred tax assets are estimated at 37% for North America and 15% for outside North America. Deferred tax assets relate primarily to non-capital operating loss carryforwards incurred since inception.

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

	<u>2007</u>	<u>2006</u>
Combined Statutory Rates	31%	34%
Non-deductible expenses	(10)	(14)
Change in valuation allowance	<u>(21)</u>	<u>(20)</u>
Effective tax rate	0%	0%

## NOTE 13. STOCK OPTION PLANS

The Company has a Stock Option Plan (the “2000 Plan”) under which directors, officers, key employees, and certain independent contractors were granted 1,150,000 options to purchase shares of the Company’s authorized but unissued Common Stock. This initial option plan was terminated in 2001.

The Company adopted a new option plan on February 10, 2003 under which options to purchase 1,500,000 common shares were granted to certain key employees, consultants and directors. Only 570,000 options were granted under this Plan.

The Company, via written consent from a majority of the holders of Common Stock, approved the adoption of a new option plan during July 2004. Under this plan the Company has issued the maximum number of options permitted totalling 24,000,000 options to purchase Common Stock.

A majority of shareholders approved the 2006 Option Plan at the Annual General Meeting held March 29, 2006. Under this plan up to 5,000,000 options may be granted and during the year ended September 30, 2007 the Company granted 40,000 options to two consultants in exchange for committee advisory services. The Company also granted 50,000 options to a sales and marketing consultant in relation to his services. These options were granted on January 3, 2007 and will vest on November 10, 2007.

The Company recorded \$15,752 in stock based compensation expense related to employee and consultant options for services rendered during the year using the Black-Scholes option-pricing model (2006 - \$717,117). This expense comprises a portion of general and administrative expenses seen on the consolidated statement of operations and comprehensive loss. There remains no further unamortized stock compensation to be expensed in relation to the options granted to 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 as follows:

<b>Option Plan</b>	<b>Number Granted</b>	<b>Issue Date</b>	<b>Exercise Price \$</b>	<b>Share Price on Date of Grant \$</b>	<b>Expiry Date</b>	<b>Remaining Contractual Life (Years)</b>
<b>2000</b>	1,150,000	6/30/2000	0.10	0.10	6/30/2010	2.75
<b>2003</b>	480,000	2/10/2003	0.63 – 0.69	0.63	2/10/2008	0.36
	20,000	5/5/2003	0.55	0.51	5/5/2008	0.84
	70,000	5/10/2003	0.50	0.50	5/10/2008	0.85
<b>2004</b>	12,720,000	15/11/2004	0.15	0.11	15/11/2014	7.12
	500,000	15/11/2004	0.40 – 0.50	0.11	15/11/2009	2.12
	7,000,000	10/1/2005	0.16	0.14	10/1/2015	7.28
	390,000	8/2/2005	0.15	0.14	8/2/2015	7.34
	100,000	25/05/2005	0.13	0.13	25/05/2010	2.65
	3,290,000	17/10/2005	0.075	0.08	17/10/2015	8.05
<b>2006</b>	90,000	3/1/2007	0.10	0.10	3/1/2012	4.26
<b>Total</b>	<b>25,810,000</b>					
Weighted Average			0.16			6.82

#### **NOTE 14. WARRANTS**

The Company recorded \$318,718 in warrant amortization for the year ended September 30, 2007 (2006- \$251,720). This expense comprises a portion of general and administrative expenses seen on the

consolidated statement of operations and comprehensive loss. Additional details regarding warrants are seen in the tables below.

Number Granted and Exercisable	Issue Date	Exercise Price \$	Share Price on Grant Date \$	Expiry Date	Remaining Contractual Life (Years)	Reason for Issuance
670,275	12/19/2003	1.10	0.18	12/19/2007	0.22	Financing costs
5,204,160	10/13/2004	0.30	0.13	10/13/2007	0.04	Conversion of Promissory Notes and Private Placement
1,577,453	2/13/2006	0.10	0.13	2/13/2008	0.37	Issuance of Promissory Notes
3,182,000	3/31/2006	0.10	0.20	3/31/2008	0.50	Issuance of Promissory Notes
300,000	6/30/2006	0.10	0.10	6/30/2008	0.75	Issuance of Promissory Notes
465,000	9/30/2006	0.10	0.10	9/30/2008	1.00	Issuance of Promissory Notes
1,500,000	12/31/2006	0.10	0.09	12/31/2008	1.25	Issuance of Promissory Notes
807,775	3/31/2007	0.10	0.10	3/31/2009	1.50	Issuance of Promissory Notes
630,000	9/30/2007	0.10	0.08	9/30/2009	2.00	Issuance of Promissory Notes
14,336,663						
Weighted Average		0.22			0.53	

As at September 30, 2006 there were 59,692,691 warrants issued and outstanding. During the year ending September 30, 2007, 45,356,028 warrants expired. No warrants issued and outstanding have been exercised as at September 30, 2007. All of the warrants entitle the holder to purchase one share of Common Stock on or before the expiry date. See also Note 18 – Subsequent Events for warrants that have been or will be issued and for warrants that have expired since September 30, 2007.

#### **NOTE 15. RELATED PARTY TRANSACTIONS**

The Company sourced some of its funding during the year from the directors. The directors loaned the Company approximately \$78,177 during the year ended September 30, 2007 taking back promissory notes (2006- \$322,385). Interest accrued on these loans totals approximately \$11,421 as at September 30, 2007 (2006 - \$34,120). Interest rates on these loans range from 10% - 12% per annum. The loans are repayable on or before the first anniversary date of issuance and are unsecured.

The Company's managing director of its 85% owned subsidiary -AlphaRx International Holdings Limited, is Edward Lee, the brother of Michael Lee – President & CEO of the Company. He is paid approximately \$77,000 per annum base salary plus statutory pension and benefit contributions, a fair market value salary. The Company is also committed to pay \$25,000 to Edward Lee in conjunction with

the sourcing of funds for the purchase of Common Stock subsequent to September 30, 2007. See Subsequent Events Note 18.

#### **NOTE 16. 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 majority of the Company's revenues for the year ended September 30, 2007 were derived from royalties received from one of its partners. For the year ended September 30, 2006 the Company derived the majority of its revenues from license fees.

<b>Revenue Stream</b>	<b>Years ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
License Fees (North America)	-	\$ 1,000,000
Third Party Royalties (Mexico)	81,602	24,774
Royalties from Joint Venture (Asia)	12,839	-
Consulting Fees (North America)	76,000	-
<b>Total Revenues</b>	<b>\$170,441</b>	<b>\$1,024,774</b>

##### **Long Lived Assets**

<b>Long Lived Assets</b>	<b>Years ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
North America	\$215,796	\$280,635
Asia	1,830	2,044
<b>Total Long Lived Assets</b>	<b>\$217,626</b>	<b>\$282,679</b>

#### **NOTE 17. RECLASSIFICATIONS**

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

#### **NOTE 18. SUBSEQUENT EVENTS**

The Company issued 5,000,000 shares of restricted Common Stock on November 14, 2007 via a private placement. The Common Stock was issued at \$0.10 per share. As a result the Company had 86,203,964 shares of Common Stock outstanding as of November 14, 2007. The Company is also committed to issue 5,000,000 warrants to purchase Common Stock at \$0.10 per share of Common Stock on or before December 31, 2007 in conjunction with the issuance of these 5,000,000 shares.

The Company has issued approximately \$154,000 in unsecured Promissory Notes since September 30, 2007. These notes bear interest at 12% per annum, and are repayable within one year of issue date. The Company is also committed to issue 770,000 warrants exercisable at \$0.10 per share of Common Stock on or before December 31, 2007 in conjunction with the issuance of these promissory notes.

Warrants issued and outstanding as at September 30, 2007 to purchase 5,204,160 shares of Common Stock at \$0.30 expired on October 13, 2007.