

AlzHyme Limited

ABN 13 102 832 995

ANNUAL REPORT

FOR THE YEAR ENDED
30 June 2009

CORPORATE DIRECTORY

A description of the Company's operations and principal activities is included in the Review of Operations on pages 6 to 9 and in the Directors' Report on pages 12 to 16. The Directors' Report is not part of the Financial Report.

Directors	Mr. William Harold Clough, AO, OBE <i>Non-Executive Chairman</i> Dr. Gregory Brian Thomas, <i>Managing Director, CEO</i> Prof. Ralph Nigel Walter Martins, <i>Non-Executive Director</i> Dr. Andrew Francis Sierakowski, <i>Non-Executive Director</i> Dr. Colin Terry Bayliss, <i>Non-Executive Director</i> Dr. Marcia Taylor, <i>Non-Executive Director</i>
Company Secretary	Ms. Marjorie Janet Allen
Registered Office	c/- McRae Investments Pty Ltd Suite 6, 117 Broadway Nedlands, WA 6009 Australia Telephone: +61 (08) 9480 1184 Email: info@alzhyme.com
Auditors	Moore Stephens Perth Pty Ltd Level 3, 12 St Georges Terrace Perth WA 6000
Solicitors	Steinepreis Paganin Level 4, Next Building 16 Milligan Street Perth, WA 6000
Share Registry	c/- McRae Investments Pty Ltd Suite 6, 117 Broadway Nedlands, WA 6009 Australia Telephone: +61 (08) 9480 1184
Bankers	ANZ 220 St George's Terrace Perth, WA 6000
Website	www.alzhyme.com
ABN	13 103 832 995

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LETTER TO SHAREHOLDERS

Dear Shareholders,

On behalf of the Board of Directors of Alzhyne Limited, I am pleased to present to you the first ever Annual Report of the Company.

The past year has been a very challenging and difficult year for the Company and for the Australian biotechnology sector in general. Any industry can be affected by a recession, but biotechnology is a particularly fragile affair. The global financial crisis and the dramatic fall in market capitalisation of almost every ASX listed company has meant that raising capital has been extremely difficult. This is particularly true for early stage unlisted companies such as Alzhyne. However, through these tough times Alzhyne has remained dedicated on developing the Company's underlying technology pipelines and generating value for its shareholders.

In December 2008, following a Special General Meeting of Shareholders the Company successfully applied to the Australian Securities & Investments Commission to change its company registration from a Private Proprietary Limited company to a Public Unlisted company. This has resulted in the Company having increased reporting and compliance obligations. However, the Board believes that the restructuring will make the Company more attractive to high networth and institutional investors. The Company is continuing with its efforts to secure the required funding to support development of its pipeline of research projects and I will keep you informed of future developments. During the 2008/2009 financial year the Company raised a total of \$320,000, of which \$250,000 was from existing shareholders and \$70,000 was from two new investors.

Like most medical biotechnology companies in the development stage Alzhyne expects to be using cash until its research activities become marketable. The Company aims to seek funding for the next financial year through capital raisings or possible licensing of assets. The Company's commercialisation strategy is to partner in the development its products. Alzhyne has ongoing research collaborations with Commonwealth Scientific and Industrial Research Organisation (CSIRO), the Australian Nuclear Science and Technology Organisation (ANSTO) and Edith Cowan University.

Because of rising R&D costs and declining product life cycles within the pharmaceutical industry, the demand for strategic product acquisitions and/or in-licensing is likely to increase significantly over the next five years. With our technology advantage, internationally recognized research team, and focus on a huge market with unmet medical needs, the Company is well positioned to attract industry partners for a high-value research collaboration or potential acquisition.

During the last year the Company has scaled down its therapeutic program of research sufficiently to remain viable. However, the Company has recently initiated a program of research to develop a blood test for the early detection of Alzheimer's disease. At the moment there is no proven method to diagnose Alzheimer's disease in its early stages, which is essential for any treatment to be successful. A major focus of Alzhyne's research will now be on the development of an effective diagnostic blood test for Alzheimer's disease. Current detection methods use expensive molecular scans that are typically not introduced to the patient until symptoms of dementia are apparent. The market for a reliable blood test is

enormous and potentially achievable as a key milestone to the Company within the next 3 years.

Alzhyme's Board and management team has been significantly strengthened with Dr. Marcia Taylor joining the Board in April as a non-executive director. Marcia is Director of Research and Innovation at Edith Cowan University and brings considerable experience in commercialisation to the Company's operations.

In January 2009 the Company signed License and Option Pipeline Agreements with both Edith Cowan University and the McCusker Foundation for Alzheimer's Disease Research. This has given Alzhyme a first-right-to acquire and commercialisation intellectual property in the treatment and diagnosis of Alzheimer's disease arising out of either Institute and provides the Company with a wonderful opportunity to increase its R & D pipeline and reduce its development risk.

Finally, on behalf of the Board of Alzhyme, I wish to thank my fellow Directors and the Company's management for their dedicated efforts during the past year and to the Shareholders for their patience and ongoing support of the Company.

A handwritten signature in black ink that reads "G. Thomas". The signature is written in a cursive, flowing style.

Dr. Greg Thomas
Chief Executive Officer

REVIEW OF OPERATIONS

Company Overview

Alzhyne Limited is a biotechnology company specialising in the development of novel drugs and diagnostics for the effective treatment and detection of Alzheimer's disease. This disease is associated with progressive memory loss and brain cell death and mainly affects the elderly. It is estimated that about 10% of those past the age of 65 have Alzheimer's disease, with risk doubling every five years.

Through the research efforts of Professor Ralph Martins, the Company has identified a family of peptides that specifically neutralize the damaging potential of beta-amyloid in the brain. Accumulation of beta-amyloid in the brain is believed by many to be of major importance in the pathogenesis of Alzheimer's disease.

The Company's lead drug candidate ANA-5 has been shown to significantly inhibit beta-amyloid-induced neurotoxicity in several animal models and the Company is now moving forward, in partnership with CSIRO, with the development of an orally available analogue of ANA-5 for the treatment of Alzheimer's disease.

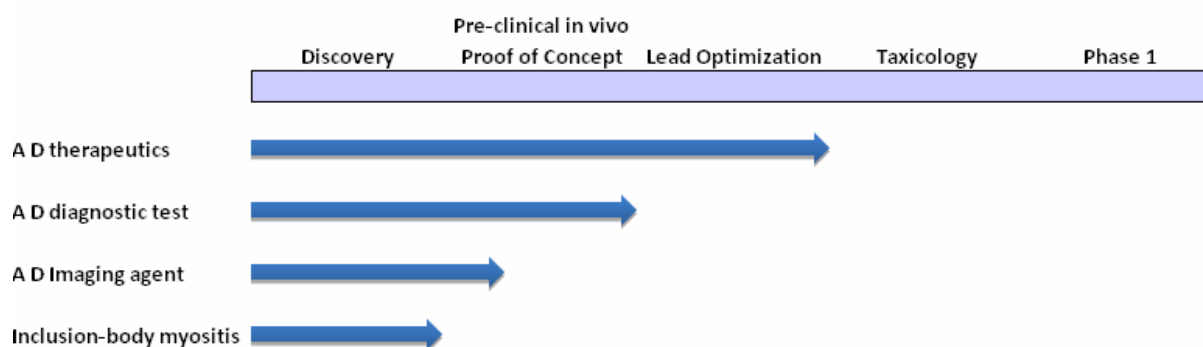
In parallel to its therapeutic program of research, Alzhyne has a pipeline of discovery and developmental programs underway for the early diagnosis of Alzheimer's disease.

The Company is now focussing on developing a blood test of serum-based biomarkers for early detection of Alzheimer's disease. These biomarkers have been shown to be associated with the onset and progression of the disease. The development of an effective and improved diagnostic method has the potential to minimise the enormous impact that Alzheimer's disease will have on health, quality of life and healthcare costs in coming years. In addition, such a test would and provide a more accurate diagnosis of the disease and monitoring of drug efficacy.

The project offers significant commercial potential for the early diagnosis of Alzheimer's disease by allowing:

- improved management of clinical trials by facilitating better and earlier patient recruitment;
- accurate diagnosis of Alzheimer's disease early in the disease course and before significant memory loss occurs;
- earlier and more appropriate treatment and management of Alzheimer's disease patients;
- identification of mild cognitive impairment patients likely to progress to Alzheimer's disease;
- monitoring of the response to treatment with new amyloid targeted and disease modifying therapies being developed.

Alzhyne Pipeline



Project Updates

Alzheimer's Disease Therapeutics

Alzhyne has used its proprietary intellectual property to generate a selection of potentially therapeutic peptides that specifically neutralise the damaging potential of beta-amyloid. The Company has used innovative screening from focused compound libraries and medicinal chemistry strategies to identify novel peptides that target beta-amyloid. A screening method (involving phage display technology) has identified a family of compounds that specifically bind human, but not rat, beta-amyloid.

Fundamental to the Company's drug development program was that observation that human beta-amyloid is much more neurotoxic than rat beta-amyloid, which differs only at amino acid residues 5, 10 and 13 (a region referred to as the superoxide dismutase [SOD]-like site). Moreover, this site is similar to the site on human beta-amyloid protein that interacts with metal ions. The Company is developing compounds that neutralize beta-amyloid catalytic production of hydrogen peroxide by selectively targeting and binding to the SOD-like site on human beta-amyloid. By binding to the SOD-like site, these compounds prevent beta-amyloid from eliciting damaging effects on the brain.

Through screening, the Company has discovered a family of 25 peptides that bind to the SOD-like site of human soluble beta-amyloid. Two peptides in particular, ANA-1 and ANA-5, were found to prevent beta-amyloid-induced neurotoxicity. In a rat model of beta-amyloid-induced neurotoxicity treatment with ANA-1 was found to enhance the clearance of beta-amyloid from the brain. In a subsequent proof-of-concept study, treatment with ANA-5 significantly reduced brain beta-amyloid plaque levels by 28% in the PS/APP transgenic mouse model of Alzheimer's disease.

ANA-5 represents a new and promising therapeutic class of drug in development as a treatment for Alzheimer's disease. The Company is currently developing ANA-5 for the treatment Alzheimer's disease. Alzhyne has entered into a research collaboration with CSIRO, one of the world's largest scientific research organisations to undertake a lead optimisation program to develop an oral available analogue of ANA-5.

Other Indications

The compounds being developed by Alzzyme could also potentially target other amyloid related diseases, such as the orphan disease inclusion body myositis; an age-related muscle disease caused by amyloid toxicity in muscle cells.

Alzheimer's Disease Diagnostic Blood Test

The pathological processes of Alzheimer's disease begin years before clinical symptoms are observed. With no marketed definitive diagnostic tests for Alzheimer's disease, clinical diagnosis of Alzheimer's disease is primarily based on subjective methods such as cognitive testing by physicians. There remains a considerable unmet market for a reliable, cost effective and minimally invasive test (e.g. blood test) that would allow early accurate diagnosis of Alzheimer's disease and result in improved patient treatment.

The aim of this project is to develop a minimally-invasive, low cost yet reliable diagnostic kit for the routine detection of Alzheimer's disease biomarkers in blood serum. The Company's strategy is to first determine the usefulness of known biomarkers in blood products, followed by several other potential biomarkers for Alzheimer's diseases. The Company will utilise methodology that allows the simultaneous measurement of multiple plasma biomarkers from a single sample. Such a test would improve clinical trials by facilitating better patient recruitment, providing a more accurate and earlier diagnosis of the disease and monitoring of drug efficacy.

Initial studies have suggested that two particular blood proteins can have possible roles as biomarkers for Alzheimer's disease. These biomarkers requires further validation and are unlikely to be useful on their own right as a diagnostic marker due to a lack of specificity and sensitivity. However, these biomarkers may be useful in a diagnostic kit when combined with a panel of 4-6 other blood biomarkers for Alzheimer's disease.

Alzheimer's Disease Imaging Agent

The compounds being developed by Alzzyme have the potential to be developed as molecular imaging agents for the clinical diagnosis of Alzheimer's disease. To accelerate this program of research, Alzzyme has established a collaborative research agreement with ANSTO to develop an analogue of ANA-5 as a radiopharmaceutical agent to image amyloid deposits in the brains of living patients.

Because ANA-5 binds to a specific site within the human beta-amyloid protein, with the successful radiolabelling of the compound, the potential exists for the development of an early diagnostic and imaging test for Alzheimer's disease, using either Positron Emission Tomography (PET) or Single Photon Emission Computed Tomography (SPECT) imaging techniques.

Business Strategy

By pursuing an integrated pipeline approach encompassing diagnostic tests, imaging agents and disease-modifying drugs, Alzzyme expects to meaningfully impact the Alzheimer's disease market, ease the suffering of millions of patients and create a future in which Alzheimer's disease is a treatable disease.

The Company expects to achieve these objectives by:

- **Adding value to its technologies in staged processes**, which allows the Company to focus its capital and resources on diagnostic tests and disease-modifying agents having the greatest likelihood of success.
- **Establishing partnerships and collaborations**. The Company has ongoing partnerships with the Commonwealth Scientific and Industrial Research Organization (CSIRO), the Australian Nuclear Science and Technology Organization (ANSTO), Edith Cowan University and the Sir James McCusker Foundation for Alzheimer's Disease Research.
- **Building a balanced portfolio** consisting of pre-clinical and early-stage clinical compounds and diagnostics, which together will create near-term and longer-term revenue opportunities.
- **Avoiding the risks associated with a single product** by developing diagnostic tests, disease-modifying therapeutics and imaging agents and pursuing opportunities to in-license late-stage compounds.
- **Maintaining a focus on value creation** through ongoing product development and capitalizing on licensing opportunities.

INTELLECTUAL PROPERTY REPORT

Alzhome's technologies are protected through a combination of patents, patent applications and trade secrets. The patent estate encompasses compounds, compositions of matter, and methods and uses for treating Alzheimer's disease and related dementias.

The value of Alzhome's Intellectual Property lies in a combination of the skills and expertise of its key scientist, Professor Martins and his research team, together with key relationships with research institutions and commercial parties working in the relevant field. When Alzhome was formed in November 2002 all intellectual property was wholly assigned without encumbrance to the new corporate entity.

Screening Methods and the Use of Agents Identified Using the Same

Territory	Patent number	Status
United States	10/674,456	Under examination
Europe	02787209.2	Under examination
Australia	2002351880	Granted 13 th Dec 2007
United States	11/925,279	Divisional application

Improved Peptide Composition

Territory	Patent number	Status
Australia	2007001767	Has entered National Phase
United States	12/514,738	Has entered National Phase
Europe	07815570.2	Has entered National Phase

CORPORATE GOVERNANCE STATEMENT

The Directors monitor the business affairs of the Company on behalf of Shareholders and have formally adopted a corporate governance policy which is designed to encourage Directors to focus their attention on accountability, risk management and ethical conduct.

The Company aims to ensure that its Directors and Key Executives meet their obligations under the *Corporations Act 2001* in accordance with Australian Securities and Investments Commission's policies and guidelines. The Company shall comply with the laws in the jurisdictions in which it operates and conducts its business activities.

In accordance with legal requirements and agreed ethical and moral standards, Directors and Key Executives of the Company, agree to:

- act with honesty and good integrity and in the best interests of the Company at all times.
- act with due care and diligence in fulfilling the responsibilities of office and exercising the powers attached to that office.
- use the powers of office for proper and correct business purposes and in the best interests of the Company as a whole.
- undertake diligent analysis and demonstrate commercial reasonableness when considering all proposals placed before the Board.
- have an obligation to be independent in judgement and actions and to take reasonable steps to be satisfied as to the soundness of all decisions of the Board.
- act with a level of skill expected from Directors and Key Executives of a privately funded company.
- not make improper use of information acquired as Directors and Key Executives.
- not take improper advantage of the position of Director/Key Executive or use the position for personal gain or to compete with the Company.
- protect and ensure efficient use of Company property and to not use such property for personal gain or to compete with the Company.
- protect and ensure the efficient use of Company assets for legitimate business purposes.
- not allow personal interests, or the interests of any associated persons, to conflict with the interests of the Company.
- not disclose non-public information except where disclosure is authorised or required by law.
- keep confidential all information received in the course of exercising their duties as a Director or Key Executive and ensure such information remains the property of the Company.
- make reasonable enquiries to ensure that the Company is operating efficiently, effectively and legally, towards achieving its goals.
- not engage in conduct unbecoming that could bring discredit upon the Company.
- have an obligation, at all times, to comply with the spirit, as well as the letter of the law and with the principles of this Code of Conduct.

DIRECTORS' REPORT

The Directors of Alzhyne Limited present their report on the Company for the financial year ended 30 June 2009.

DIRECTORS

The names of the Directors of the Company in office during the financial year and until the date of this report, unless otherwise stated, are set out below.

Mr. William Harold Clough, AO, OBE, BE(Hons), MS(Calf), Hon FIEAust, CPEng, Hon DE(UWA), FTSE, FAICD, FAIM
Non-Executive Chairman

Mr. Clough has been Non-Executive Chairman of Alzhyne Limited since incorporation of the Company on 14 November 2002. Mr. Clough is a prominent and highly successful Perth industrialist, entrepreneur and angel investor. He has a wealth of experience in business administration and operations and was on the Senate of the University of Western Australia for twelve years. Mr. Clough joined the Clough family company in 1954 and served as Chairman and Managing Director of Clough Limited, holding company for the Clough Engineering Group until 1988. Mr. Clough was awarded the Queen's Silver Jubilee Medal in 1977, Officer of the Order of the British Empire in 1979, Officer of the Order of Australia in 1990, and received an Honorary Degree of Doctor of Engineering from the University of Western Australia in 1990.

Mr. Clough was acknowledged as WA Citizen of the Year in Industry and Commerce in 1983, and won the Australasian Institution of Electrical Engineers James N Kirby Award, and the Institution of Engineers Australia Peter Nicol Russell Memorial Medal in 1993, as well as the Australian Institute of Company Directors (WA) inaugural gold medal for contributions to engineering, industry and commerce in 1994. In 1997, Mr. Clough received a Services to Construction Award from the Australian Contractors' Association, in recognition of his lifelong contribution to the construction industry. In April 2000, Mr. Clough was named one of Australia's Export Heroes and in 2005 was awarded the Sir Edward Weary Dunlop Medal for improving Australia-Asia relations.

His company, McRae Investments Pty Limited is the founding investor of Alzhyne Limited. Mr. Clough is a former Chairman and Non-Executive Director of Advanced Nanotechnology Limited.

An interest includes 14,682,616 ordinary shares in Alzhyne Limited held in the names of McRae Technology Pty Limited and TechStart Australia Pty Limited.

Dr. Gregory Brian Thomas, BSci (Agric), Hons, PhD
Managing Director, Chief Executive Officer

Dr. Thomas joined the Company as Chief Executive Officer in September 2005. He has over 24 years experience in research and management in both the academic and biotechnology sectors where he has gained extensive international experience in managing discovery and pre-clinical research and development programs. Dr. Thomas is the former Chief Science Manager of Neuren Pharmaceuticals Limited in Auckland, New Zealand. Whilst at Neuren Dr. Thomas became trained in all aspects of the drug development process right through from early discovery to late stage commercialisation. Dr. Thomas has previously worked at Prince Henry's Institute for Medical Research (Melbourne), Medical

Research Council Reproductive Biology Unit (Edinburgh), National Institute for Medical Research (London) and Liggins Institute (Auckland).

An interest includes options to acquire 107,230 ordinary shares.

Professor Ralph Nigel Walter Martins, BSci (Hons), PhD
Non-Executive Director

Professor Martins is the founding scientist and Chief Scientific Officer of Alzhyne and has been a Non-Executive Director since incorporation of the Company. He is internationally recognised as a world leader in Alzheimer's disease research and has built a team of over 25 researchers at the Sir James McCusker Alzheimer's Disease Research Unit, Hollywood Private Hospital and Edith Cowan University. Professor Martins trained with Professor Colin Masters in the early 1980's when Professor Master's group was the first to successfully identify, isolate and characterise the beta-amyloid protein in senile plaques in the human Alzheimer's brain. Professor Martins was the first to propose and demonstrate that the Alzheimer's brain was under oxidative stress. Since establishing his own research group in Perth in 1990, Professor Martins and his research team have continued to unravel the disease processes in the ongoing quest for new therapies to treat Alzheimer's disease. Professor Martins is the Foundation Professor of Ageing and Alzheimer's Disease at Edith Cowan University and the Founding Director of the Centre of Excellence for Alzheimer's Disease Research and Care. He has published over 110 scientific papers and reviews on Alzheimer's disease.

An interest includes 4,100,000 ordinary shares in Alzhyne Limited.

Dr. Andrew Francis Sierakowski, BSc (Hons), PhD, FRACI, CChem
Non-Executive Director

Dr. Sierakowski has been a Non-Executive Director since incorporation of the Company. Dr. Sierakowski is the Director of the Office of Industry and Innovation, University of Western Australia. Dr. Sierakowski is Chair of Knowledge Commercialisation Australasia (KCA), Inc., a peak body representing organisations and individuals associated with knowledge transfer. Dr. Sierakowski completed his BSc and PhD at the University of Western Australia and carried out Post Doctoral work in the UK and Switzerland. In 1980, he joined Kodak Australia in Melbourne as a Group Leader R&D where he coordinated large technology transfer and commercialisation projects for Kodak worldwide. Dr. Sierakowski gained wide experience with Kodak working in manufacturing, technical marketing, & quality assurance in Australia, France, Asia & USA.

Dr. Sierakowski is a Non-Executive Director of The Buzz Corporation Pty Limited, and previously was Chairman and a Non-Executive Director of Vitrostone Limited and a Non-Executive Director of SEAGA Pty Limited.

Dr. Colin Terry Bayliss, MBBS, MHA, FRACMA
Non-Executive Director

Dr. Bayliss joined Alzhyne Limited as Non-Executive Director in 19 January 2006. Dr. Bayliss is currently the Coordinator of Development Projects and Research at Hollywood Private Hospital. He is a medical graduate of the University of Western Australia and a Fellow of Royal Australasian College of Medical Administrators. Dr. Bayliss has worked as a Medical Registrar at both Royal Perth Hospital and Hollywood Private Hospital and between 1994 and 2001 was Director of Medical Services at Hollywood Private Hospital. Dr. Bayliss

has been a member of the Board of the McCusker Foundation for Alzheimer's Disease Research Inc. since its inception in 2000, and served as Chairman during 2006/2007. He is the current Chairperson of the Hollywood Private Hospital Research Ethics Committee and President of the Hollywood Private Hospital Research Foundation. He is also a member of the WA Therapeutics Advisory Group and sits on the Governing Board of the Centre of Excellence for Alzheimer's Disease Research and Care.

An interest includes 200,000 ordinary shares in Alzhyne Limited.

Dr. Marcia Taylor, BSc (Hons), PhD
Non-Executive Director (Appointed 21 April 2009)

Dr. Taylor is the Director of Research and Innovation at Edith Cowan University. She completed her BSc (Hons) and PhD at the University of Western Australia and then undertook postdoctoral studies as a Glaxo-Wellcome Fellow at the Johns Hopkins Division of Clinical Immunology in Baltimore, Maryland, USA and as a Fogarty Fellow at the National Institutes of Health in Bethesda, Maryland, USA. Following this, she trained in the area of Target Validation at Chiron Corporation (now Novartis) in California, USA after which she was appointed as Senior Scientist in the Functional Genomics Division at SBIO Pty Limited, Singapore. At SBIO, she gained expertise in the identification and validation of potential cancer targets using a proprietary anti-sense technology and confirmation in cell-based assays. On her return to Perth she was appointed as R&D Director at Regenera Pty Limited, a drug development company where she managed the Quality, Regulatory and Scientific Divisions of the company.

COMPANY SECRETARY

The following person held the position of Company Secretary at the end of the financial year.

Ms. Marjorie Janet Allen

Ms. Allen has been the Company Secretary since 8 January 2005. Ms Allen is a Director of Vasse Bookkeeping & Business Services, providing professional service to clients in the areas of bookkeeping, BAS preparation and lodgement and company secretarial functions. Ms. Allen has qualifications in Business Management from Charles Sturt University, and is fully trained in the use of MYOB through Challenger TAFE. Ms. Allen has over 25 years experience including duties as a Company Secretary, Bookkeeper and Office Administrator for several private start-up, biotechnology, commercialisation and venture capital companies.

MEETINGS OF DIRECTORS

During the financial year six meetings of Directors were held. Attendance by each Director was as follows:

	<u>Number Eligible to Attend</u>	<u>Number Attended</u>
Dr. CT Bayliss	6	4
Mr. WH Clough	6	5
Prof. RNW Martins	6	6
Dr. AF Sierakowski	6	4
Dr. GB Thomas	6	6
Dr. M Taylor	2	2

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year was the development and commercialisation of research into therapeutics and diagnostics for Alzheimer's disease.

OPERATING RESULTS AND REVIEW OF OPERATIONS

The operating loss after income tax was \$316,705 (2008: \$158,706 loss). This result has been achieved after fully expensing all research and development costs.

The loss for the financial year reflects an increase in research and development expenditure compared to the previous financial year associated with an increase in drug pipeline research activity and expansion of the diagnostics program of research. For further detail refer to the Review of Operations set out on Page 6.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the year the Company changed its status to a public company. Other than this, there were no significant changes in the nature of the principal activities of the Company or its state of affairs during the year.

EVENTS SUBSEQUENT TO YEAR END

There has been no matter or circumstances that have arisen since year end, other than referred to elsewhere in this report or in the financial statements or notes thereto, that has affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of Company in subsequent periods.

LIKELY DEVELOPMENTS

In the opinion of the directors, it is considered that, apart from general details of likely developments, it may prejudice the interests of the Company if information in respect of future plans or likely developments in the Company's operations is disclosed.

DIVIDENDS

The directors do not recommend that a dividend be paid. No dividends have been paid or declared since the end of the previous financial year.

OPTIONS

At the date of this report, the unissued ordinary shares under option are as follows:

<u>Number</u>	<u>Expire Date</u>	<u>Exercise Price</u>
392,000	01/10/2014	50 cents
217,230	08/12/2015	50 cents

DIRECTORS' BENEFITS

During the year, no director of the Company has received, or become entitled to receive, a benefit by reason of a contract made by the Company or a related entity with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, other than as disclosed in the financial statements.

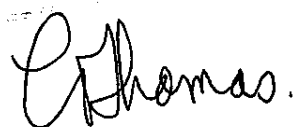
INSURANCE OF DIRECTORS

The Company has not, during or since the end of the financial year, given an indemnity or paid or agreed to pay a premium in respect of a contract insuring the directors or auditor of the Company in respect of costs and expenses which may be incurred and liabilities that may arise as a result of defending proceedings in respect of their positions.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any of these proceedings.

Signed this 13th day of October 2009 for and on behalf of the Board in accordance with a resolution of the directors.



Signature

Dr. Greg Thomas

Name of Director

**AUDITORS INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF ALZHYME LTD**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2009 there have been:

- i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.



**NEIL PACE
PARTNER
REGISTERED COMPANY AUDITOR**



MOORE STEPHENS

Signed at Perth this 13th day of October 2009.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ALZHYNE LTD

Report on the financial report

We have audited the accompanying financial report, being a special purpose financial report, of Alzhyne Ltd (the company), for the year ended 30 June 2009.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial report, are appropriate to meet the requirements of the *Corporations Act 2001* and are appropriate to meet the needs of the members. The directors' responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the members. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

The financial report has been prepared for distribution to members for the purpose of fulfilling the directors' financial reporting under the *Corporations Act 2001*. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Qualification

We have not audited the prior year financial statements and accordingly do not express an opinion on the comparative financial information for the year ended as at 30 June 2008.

Qualified Auditor's opinion

Except for the matter noted above, in our opinion the financial report of Alzhyne Ltd is in accordance with the *Corporations Act 2001*, including:

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ALZHOME LTD (cont'd)

- a. giving a true and fair view of the company's financial position as at 30 June 2009 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1; and
- b. complying with Australian Accounting Standards to the extent described in Note 1 and complying with the Corporations Regulations 2001.

Inherent Uncertainty Regarding Continuation As A Going Concern

Without qualification to the opinion expressed above, attention is drawn to the matters disclosed in Note 1 (k) of the financial statements. There is significant uncertainty as to whether the Company will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.



**NEIL PACE
PARTNER
ACCOUNTANTS**



**MOORE STEPHENS
CHARTERED**

Signed at Perth this 13th day of October 2009.

DIRECTORS' DECLARATION

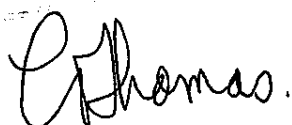
The Directors have determined that the Company is not a reporting entity and that this special purpose report should be prepared in accordance with the accounting policies described in Note 1 to the financial statements.

In accordance with a resolution of the directors of Alzhyme Ltd, we state that:

In the opinion of the directors:

- (a) the Income Statement is drawn up so as to give a true and fair view of the loss of the Company for the year ended 30 June 2009;
- (b) the Balance Sheet is drawn up so as to give a true and fair view of the state of affairs of the Company as at 30 June 2009; and
- (c) the financial statements and notes are in accordance with the Corporations Act 2001 including complying with applicable accounting standards and the Corporations Regulations 2001.
- (d) at the date of this Financial Report there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board



Signature

Dr. Greg Thomas

Name of Director

Dated this 13th day of October 2009

INCOME STATEMENT AS AT 30 JUNE 2009

	NOTE	2009 \$	2008 \$
Revenue	2	6,698	2,813
Employee Expenses		(152,692)	(152,708)
Research & Development Expenses		(47,020)	(8,636)
Consultant Fees		(69,616)	(7,000)
Administrative and Other Expenses		<u>(121,269)</u>	<u>(37,425)</u>
Loss from Ordinary Activities before Income Tax		(383,899)	(202,956)
Income Tax Benefit relating to Ordinary Activities	3	<u>67,194</u>	<u>44,250</u>
Net Loss from Ordinary Activities after Income Tax benefit Attributable to Members of the Company		<u>(316,705)</u>	<u>(158,706)</u>

The accompanying notes form part of these financial statements.

BALANCE SHEET AS AT 30 JUNE 2009

	Note	2009 \$	2008 \$
CURRENT ASSETS			
Cash	4	44,162	22,437
Receivables	5	73,360	47,846
Prepayments	6	50,608	608
TOTAL CURRENT ASSETS		168,130	70,891
NON CURRENT ASSETS			
Intangibles	7	102,548	52,822
Property, Plant and Equipment	8	13,156	15,505
TOTAL NON CURRENT ASSETS		115,704	68,327
TOTAL ASSETS		283,834	139,218
CURRENT LIABILITIES			
Payables	9	3,679	12,359
TOTAL CURRENT LIABILITIES		3,679	12,359
NON CURRENT LIABILITIES			
Loans	10	100,000	100,000
TOTAL LIABILITIES		103,679	112,359
NET ASSETS		180,155	26,859
EQUITY			
Contributed Equity	11	1,559,716	1,089,716
Accumulated losses	12	(1,379,561)	(1,062,856)
TOTAL EQUITY		180,155	26,859

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009

	Contributed Equity	Accumulated Loss	Total
	\$	\$	\$
<i>Balance at 1 July 2008</i>	1,089,716	(1,062,856)	26,860
<i>Share Issues</i>	470,000	-	470,000
<i>Loss for the year ended 30 June 2009</i>	-	(316,705)	(316,705)
<i>Balance at 30 June 2009</i>	1,559,716	(1,379,561)	180,155

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2009

	Note	2009 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and tax offset		50,628
Interest received		320
Payments to suppliers and employees		(349,223)
		<hr/>
NET CASH FLOWS USED IN OPERATING ACTIVITIES	15 (a)	(298,275)
		<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Convertible Note		100,000
Share Issues		220,000
		<hr/>
NET CASH FLOWS FROM INVESTING ACTIVITIES		320,000
		<hr/>
NET INCREASE/(DECREASE) IN CASH HELD		21,725
Cash at beginning of year		22,437
		<hr/>
CASH AT END OF YEAR	15 (b)	44,162
		<hr/>

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a special purpose financial report, which has been prepared in accordance with applicable Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report complies with the recognition and measurement, but not the disclosure requirements of the Australian Accounting Standards.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

The accounting policies have been consistently applied and, except where there is a change in accounting policy, are consistent with those of the previous year.

a) Research and Development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development cost are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

b) Intangibles

Intellectual Property

Intellectual property is recorded at cost and is reviewed for impairment annually.

Patents

Patents are recognised at cost of acquisition and are amortised over their useful life.

c) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilized.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c) Income Tax (cont'd)

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

d) Revenue Recognition

Sales Income

Sales revenue is recognised when the provision of services has been completed.

Interest Income

Interest income is recognised as it accrues.

e) Trade and Other Receivables

All trade debtors are recognised and carried at original invoice amount.

A provision for doubtful debts is raised when some doubt as to collect exists. Debts which are uncollectible are written off.

f) Impairment of assets

At each reporting date the company reviews its assets to determine whether there is any indication of impairment. If such an indication exists the carrying amount of the asset is compared to its estimated recoverable amount. If the carrying amount of the asset exceeds its recoverable amount, the asset is written down to the recoverable amount, with the amount of the write down expensed to the income statement.

g) Depreciation of Fixed Assets

Items of plant and equipment are initially recorded at cost and depreciated on a straight line basis over their expected useful life.

h) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except where the amount of GST Incurred is not recoverable from the Australian Taxation Office. Receivables and payables in the balance sheet are shown net of GST.

i) Trade and other Creditors

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. The carrying amount of accounts payable approximates net fair value.

j) Cash

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks for financial institutions in money market instruments maturing within less than two months, net of bank overdrafts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

k) Going Concern

The Company incurred a loss during the year of \$316,705 and has limited cash reserves. Notwithstanding this the Company has prepared the financial report in the going concern basis which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business. The directors are confident that sufficient equity funds can be raised so as to enable the Company to continue to trade as a going concern.

If equity funds cannot be raised, the Company may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report. This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts and the amount and classification of liabilities that may be necessary should the company be unable to continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

	2009	2008
	\$	\$
2. REVENUE		
Grants received	-	-
Interest revenue	320	1,293
Other income	6,378	1,520
	<u>6,698</u>	<u>2,813</u>
3. INCOME TAX BENEFIT		
2008 R&D Refundable Tax Offset	-	44,250
2009 R&D Refundable Tax Offset	67,194	-
	<u>67,194</u>	<u>44,250</u>
4. CASH		
Cash at bank	<u>44,162</u>	<u>22,437</u>
5. RECEIVABLES		
2008 R&D Refundable Tax Offset	-	44,250
2009 R&D Refundable Tax Offset	67,194	-
GST Refundable	6,166	3,596
	<u>73,360</u>	<u>47,846</u>
6. OTHER		
Prepayments	<u>50,608</u>	<u>608</u>
7. INTANGIBLES		
Patents – Screening Methods and the Use of Agents Identified using the same		
Australia	5,472	5,472
Less: accumulated depreciation	(491)	(217)
Europe	10,958	10,958
USA	19,793	19,793
	<u>36,732</u>	<u>36,005</u>
Patents – Improve Peptide Composition		
Australia	4,240	4,240
International	12,576	12,576
	<u>52,548</u>	<u>52,822</u>
Intellectual Property		
Pipeline Agreement	50,000	-
	<u>102,548</u>	<u>52,822</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

	2009 \$	2008 \$
8. PROPERTY, PLANT AND EQUIPMENT		
Research Equipment – at cost	16,479	16,479
Less: accumulated depreciation	(4,322)	(2,972)
	<hr/> 12,157	<hr/> 13,507
Other – Property, Plant and Equipment - at cost	3,978	3,978
Less: accumulated depreciation	(2,979)	(1,980)
	<hr/> 999	<hr/> 1,998
	<hr/> 13,156	<hr/> 15,505
9. CREDITORS & BORROWINGS		
Trade Creditors	-	8,589
PAYG Withholding	3,679	3,770
	<hr/> 3,679	<hr/> 12,359
10. LOANS		
Convertible Notes	<hr/> 100,000	<hr/> 100,000
11. CONTRIBUTED EQUITY		
Issued and Paid Up Capital -		
At the beginning of the financial year	1,089,716	929,716
Equity raised during the year	470,000	160,000
	<hr/> 1,559,716	<hr/> 1,089,716
Contributed Equity at the end of the financial year (39,982,616 ordinary shares)	<hr/> 1,559,716	<hr/> 1,089,716
12. ACCUMULATED LOSSES		
Accumulated losses -		
At the beginning of the financial year	(1,062,856)	(904,150)
Net loss after tax for the year	(316,705)	(158,706)
	<hr/> (1,377,561)	<hr/> (1,062,856)
Accumulated losses at the end of the financial year	<hr/> (1,377,561)	<hr/> (1,062,856)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

13. CONTINGENT LIABILITIES

The Company has entered into various IP/research related agreements with entities whereby it is committed to make payments as follows:

	2009
	\$
Less than one year	150,000
One to two years	125,000
Greater than two years	50,000

The above payments are largely expected to be satisfied by the issue of shares in the company.

The Company also has ongoing commitments in respect of service and consulting agreements with the chief executive officer and the chief scientific officer.

Other than this, there are no material contingent liabilities at balance date not otherwise provided for in these financial statements.

14. EVENTS SUBSEQUENT TO BALANCE DATE

No matters or events have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

15. STATEMENT OF CASH FLOWS

	2009
	\$
(a) Reconciliation of operating Profit (loss) after tax to net cash flows from operations	
Operating loss	(316,705)
Non cash expenditure	50,000
Changes in assets and liabilities	
Increase/(decrease) in deposits	-
(Increase)decrease in receivables/prepayments	(24,632)
Increase/(decrease) in creditors	(8,680)
	<hr/>
Net cash inflow/(outflow) from operating activities	(300,017)
	<hr/>
(b) Reconciliation of Cash	
Cash balance comprises:	
Cash at bank and on hand	44,162
	<hr/>
Closing cash balance	44,162
	<hr/>