Prospectus Dated March 7, 2000

This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities commission or similar regulatory authority in Canada has in any way passed upon the merits of the securities offered hereby and any representation to the contrary is an offence.

Initial Public Offering

ARIUS RESEARCH INC.

1,000,000 Class B Units offered hereby

and

850,000 Class A Units and 200,000 Class B Units issuable on exercise of Special Warrants

This Prospectus relates to the distribution of (i) 1,000,000 Class B Units (the "Offered Units") issuable at a price of $5.00 per Class B Unit (the "Offering"); and (ii) 850,000 Class A Units and 200,000 Class B Units issuable, without additional payment, upon the exercise or deemed exercise of 1,050,000 Special Warrants (the "Special Warrants") previously issued by Arius Research Inc. ("Arius" or the "Company") pursuant to prospectus exemptions (collectively, the "Private Placements"). Each Class A Unit consists of one common share (a "Common Share") in the capital of the Company and one Class A share purchase warrant (a "Class A Warrant"). Each Class B Unit consists of a Common Share and one Class B share purchase warrant (a "Class B Warrant") of the Company. 850,000 of the Special Warrants (the "Class A Special Warrants") were sold at a price of $2.00 each and 200,000 of the Special Warrants (the "Class B Special Warrants") were sold at a price of $5.00 each. The offering prices of the Special Warrants and the Class B Units were determined by negotiations between the Company and the Agent (as defined below).

Each Class B Warrant will entitle the holder thereof to purchase one Common Share at a price of $7.50, subject to adjustment in certain events, at any time on or before March 31, 2003. Each Class A Warrant will entitle the holder thereof to purchase one Common Share at a price of $4.00, subject to adjustment in certain events, at any time on or before October 31, 2002. In the event that the Common Shares are quoted or publicly listed on the Canadian Dealing Network or a Canadian stock exchange, the Class A Warrants and the Class B Warrants may be redeemed by the Company for $0.01 per Warrant upon 30 days written notice following any date upon which the weighted average market price of the Common Shares over the period of 20 consecutive business days ending not more than five trading days prior to such date has equalled or exceeded $6.00 per share in respect of the Class A Warrants, and $12.00 per share in respect of the Class B Warrants, in each case, subject to adjustment in certain events.

Subject to adjustment, the Class A Special Warrants are exercisable at any time on or before the date (the "Class A Expiry Date") which is the earlier of: (i) the fifth business day after the date that a receipt is issued by the Ontario Securities Commission for the final prospectus qualifying the Common Shares and the Class A Warrants to be issued upon exercise of the Special Warrants; and (ii) October 21, 2000. Subject to adjustment, the Class B Special Warrants are exercisable at any time on or before the date (the "Class B Expiry Date") which is the earlier of: (i) the fifth Business Day after the date that a receipt is issued by the Ontario Securities Commission for a (final) prospectus of the Company qualifying the Common Shares and Class B Warrants issuable upon exercise of the Class B Special Warrants; and (ii) March 3, 2001.

Thomson Kernaghan & Co. Ltd. (the "Agent"), as agent, conditionally offers the 1,000,000 Class B Units (the "Offered Units") for sale in the Province of Ontario on a "best efforts" basis in accordance with the conditions contained in an agency agreement dated March 3, 2000 between the Company and the Agent.

	Price[1]	Agent's Fee[2]	Net Proceeds to Company [3]
Offering			
Per Class B Unit	$5.00	$0.30	$4.70
Total	$5,000,000	$300,000	$4,700,000
Class A Special Warrant Offering			
Per Class A Special Warrant	$2.00	$0.16	$1.84
Total	$1,700,000	$136,000	$1,564,000
Class B Special Warrant Offering			
Per Class B Special Warrant	$5.00	$0.30	$4.70
Total	$1,000,000	$60,000	$940,000

(1) Arius intends to allocate $0.01 of the purchase price of a Class A Special Warrant, a Class B Special Warrant or a Class B Unit to the Class A Warrants and Class B Warrants, as the case may be, and the balance to the purchase price of the Common Shares.

(2) As additional consideration for the services rendered by the Agent, Arius has agreed to grant to the Agent non-assignable options (the "Compensation Options") to purchase (i) 85,000 Class A Units at an exercise price of $2.00 per Class A Unit at any time on or before October 31, 2001, and (ii) such number of Class B Units as is equal to 10% of the number of Class B Units sold in the Offering at an exercise price of $5.00 per Class B Unit at any time on or before March 31, 2002. This Prospectus also qualifies one-half of the Compensation Options.

(3) After deducting the Agent's fees but before deducting the expenses of the entire Offering estimated at $250,000.

Investment in the securities offered hereby should be considered speculative due to the nature of the Company's business and its present stage of development. Arius is a start up operation with no operating history. An investment in Arius should be considered only by those investors able to sustain a total loss of their investment. Arius' future success will, among other things, be dependent on the completion of this financing, its ability to arrange additional financing, the timely and cost efficient progress of its research and development programs, and the successful identification or completion of arrangements for the commercialization of the results of its research programs and the successful identification or completion of arrangements for the commercialization of the results of its research programs. **There is currently no market through which the securities offered hereby may be sold. There is no minimum number of Class B Units which must be sold under the Offering.** The price to be allocated to each Common Share in connection with the Offering exceeds the net tangible book value per Common Share as at November 30, 1999 by $3.31, after giving effect to the exercise of the Special Warrants and the issue of the Class B Units (assuming the Offering is fully subscribed), but before giving effect to the issue of Common Shares issuable upon exercise of the Class A Warrants, Class B Warrants and the Compensation Options by representing a dilution factor of 66%. See *"Risk Factors"* and *"Dilution"*.

Subscriptions for the Class B Units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Closing of the Offering is expected to take place on or about March 23, 2000 or such later date or dates as the Company and the Agent may agree. Certain legal matters in respect of this offering will be passed upon for the Company by Blake, Cassels & Graydon LLP, Toronto, Ontario and for the Agent by Wildeboer Rand Thomson Apps & Dellelce, LLP, Toronto, Ontario.

TABLE OF CONTENTS

SUMMARY

This is a summary only and should be read in conjunction with and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus.

THE COMPANY

Arius is a research and development company that is developing a class of drugs through the use of monoclonal antibodies that will enable oncologists to treat specific tumours for individual cancer patients. Current research and development activities are directed towards the production of antibodies related to breast cancer and melanoma. The Company intends to expand its research and development activities into other areas, including lung cancer, colon/gastro-intestinal cancer, ovarian cancer and prostate cancer. Arius intends to commence Phase I Clinical Trials within the next 12 months.

Arius intends to commercialize the products developed from its research and development activities by entering into strategic alliances with large pharmaceutical companies to market, manufacture and distribute such products.

THE OFFERINGS

Issue:	1,000,000 Class B Units are offered under the Offering. 850,000 Class A Units and 200,000 Class B Units are issuable upon the exercise, or deemed exercise, of the Special Warrants previously issued. Each Class B Unit consists of one Common Share and one Class B Warrant. Each Class A Unit consists of one Common Share and one Class A Warrant.
Offering:	1,000,000 Class B Units are being offered by the Prospectus at a price of $5.00 per Class B Unit.
Special Warrants:	A total of 850,000 Class A Special Warrants and 200,000 Class B Special Warrants were previously issued at a price of $2.00 per Class A Special Warrant and $5.00 per Class B Special Warrant. Subject to adjustment and upon exercise and without additional payment, each Class A Special Warrant entitles the holder to receive a Class A Unit at any time on or before the Class A Expiry Date and each Class B Special Warrant entitles a holder to receive a Class B Unit at any time on or before the Class B Expiry Date. Any Special Warrants that have not been exercised on or before the applicable Expiry Date will be deemed to be exercised immediately prior to such time without any further action on the holder's part.
Share Purchase Warrants:	Each Class A Warrant will entitle the holder thereof to purchase one Common Share at a price of $4.00, subject to adjustment in certain events, at any time on or before October 31, 2002. Each Class B Warrant will entitle the holder thereof to purchase one Common Share at a price of $7.50, subject to adjustment in certain events, at any time on or before March 31, 2003. In the event that the Common Shares are quoted or publicly listed on the Canadian Dealing Network Inc. or a Canadian stock exchange, the Class A Warrants and the Class B Warrants may be redeemed by the Company for $0.01 per warrant upon 30 days written notice following any date upon which the weighted average market price of the Common Shares over the period of 20 consecutive business days ending not more than five trading days prior to such date has equalled or exceeded $6.00 per share in respect of the Class A Warrants, and $12.00 per share in respect of the Class B Warrants, subject to adjustment in certain events, in each case.
Securities Outstanding:	A total of 2,000,000 Common Shares and 2,000,000 Class A Warrants are outstanding as at the date hereof.
Use of Proceeds:	The net proceeds from the Offering (assuming the Offering is fully subscribed) and the issue of the Special Warrants are estimated to be $6,954,000 (after deducting fees paid or payable to the Agent and the estimated expenses associated with such offerings) which will be used to fund the operations of Arius. See *"Use of Proceeds"*.

Dividends:	The Board of Directors of the Company has no current intention to declare dividends.
Risk Factors:	Investment in the securities offered hereunder is speculative due to the nature of Arius' business and its present stage of development. Arius has no operating history and an investment should be considered only by those investors able to sustain a total loss of their investment. Prospective purchasers should carefully consider certain risks pertaining to an investment in such securities, including the following: dependence on key personnel; risks related to the nature of the research; competition; liquidity and capital requirements; exclusive patents, technologies and trade secrets and government regulation. There is currently no market through which the securities offered hereby may be sold. Arius' continued existence and future expansion will depend on its ability to finance and develop its scientific discoveries. See *"Risk Factors"*.
Principal Shareholder:	Dr. David Young, President and Chief Scientific Officer of the Company, holds 1,500,000 Common Shares representing 37.03% of the Common Shares after giving effect to the issue of Common Shares under the Offering (assuming the Offering is fully subscribed) and the exercise of the Special Warrants.
Dilution:	The price to be allocated to each Common Share in connection with the Offering exceeds the net tangible book value per Common Share as at November 30, 1999 by $3.31 after giving effect to the exercise of the Special Warrants and the issue of the Class B Units (assuming the Offering is fully subscribed) but before giving effect to the issue of Common Shares issuable upon exercise of the Class A Warrants and the Compensation Options and the Class B Warrants representing a dilution factor of 66%. See *"Dilution"*.

GLOSSARY

Adjuvant is a substance that enhances the immune response to an antigen with which it is combined.

Amino Acids are the basic molecules that form proteins.

Antibody is a protein which is a natural part of the immune system produced by a specialized cell to recognize and neutralize foreign substances.

Antigen is a substance which elicits a specific immune response.

Assay means a procedure for the determination of the presence or quantity of a substance.

Biochemical Marker is a quantifiable indicator of a condition (typically for a biochemical event).

Biotechnology is applied biology directed towards problems in medicine.

Chemotherapy or chemotherapeutic means the use of drugs in the treatment of disease.

Cytokine means low molecular weight proteins that stimulate or inhibit the proliferation or function of immune cells.

Cytotoxic cells are cells capable of killing other cells.

Cytotoxicity means the degree to which cells are killed.

Diagnostic means relating to and aiding in the identification of a disease.

Diagnostic and Therapeutic Products are products which aid in or relate to diagnosis and therapy.

DNA is an abbreviation for deoxyribonucleic acid, a molecule in cells which generate a specific protein, such as an enzyme and **cDNA** means complementary DNA.

ELISA is an abbreviation for enzyme-linked immunosorbent assay.

Epitope is an antigenic determinant.

Etiologies are the causes of disease.

Enzymes are proteins secreted by cells which act as catalysts to induce chemical changes in other substances, themselves remaining apparently unchanged by the reaction.

FDA is the United States Food & Drug Administration, an agency of the US government.

Gene is a region of DNA, which controls a discrete hereditary characteristic, usually corresponding to a single protein or RNA (messenger).

Gene Expression is the production of a specific protein.

Genomics is the study of genes.

Herceptin is a humanized antibody that binds to the HER2/neu cancer associated antigen to treat breast cancer.

HPB means the Health Protection Branch of Health Canada, an agency of the government of Canada.

Hormone ablation refers to controlling or killing cancer cells by depriving them of essential hormones.

Hybridoma cells means any continuously growing cell line generated by the fusion of a myeloma cell and a normal cell and are capable of producing antibodies.

Investigational New Drug Application or IND means an application to the FDA which is submitted for approval prior to commencing clinical trials.

In Vitro means studies or phenomena which take place outside the body.

In Vivo means studies or phenomena which take place in the body.

Metastases are a new foci of disease in a distant part of the body.

Molecular Biology is the study of the structure and function of biological molecules.

Molecules are particles consisting of two or more atoms held together by chemical bonds; the smallest unit of a compound that displays the properties of that compound.

Monoclonal Antibodies ("MAb") are antibodies secreted by a hybridoma clone, each such clone being derived from a single B cell (lymphocyte) that produces a specific antibody.

Murine means of mouse origin.

Mutations are the changes of a gene from one allelic form to another (i.e., the nucleotide sequence changes).

Myeloma cell is a tumour cell that originated or was derived from bone marrow.

New Drug Application or NDA is a document submitted to the FDA containing all the pre-clinical and clinical data collected on a drug for approval and eventual marketing.

New Drug Submission or NDS is the Canadian counterpart to the NDA and is submitted to the HPB.

Oncologist means a physician who treats cancer patients.

Palliative means the reduction of the severity of a disease/symptom without curing the disease.

PCT countries refers to the Patent Cooperation Treaty Countries comprised of approximately 104 countries that have signed one of several regional patent treaties. These treaties enable an investor to file for an international patent application that will simultaneously seek protection in each of the member countries.

Peptide means a molecule containing many amino acids linked together.

Pharmacodynamic means the action of drugs in an organism.

Pharmacokinetic is the rate of absorption, distribution, metabolism and excretion of drugs by the body.

Pharmacologic Strategies are drug strategies.

Product License Application or PLA means the application submitted to the FDA to qualify biological drug products for sale in the United States.

Radiotherapeutic or radiotherapy means the treatment of disease using radioisotopes.

Reagents are chemicals added to a solution that participate in a chemical reaction.

Refractory means not readily amenable to treatment.

Rituximab (or Rituxan) is a humanized antibody used for treating lymphomas.

RNA is an abbreviation for ribonucleic acid and **mRNA** means messenger RNA.

Sera means the blood fluid obtained after separation of cell from clotted blood.

SCID means severe combined immunodeficiency.

Therapeutic means relating to the treatment of disease, usually by drugs.

Therapeutic and Diagnostic Tests are tests relating to the aiding of diagnosis or treatment of disease.

Toxic refers to the ability to kill or damage cells.

Transgenics are techniques for studying functional effects of specific gene products, that have incorporated one or more genes from another cell/organism and can pass them on to successive generations.

Tumour means an abnormal proliferation of cells.

Tumour antigen or tumour associated antigen or TAA means an antigen or molecule that is predominantly expressed in tumour tissues.

Vascularize means to supply with vessels.

Xenograft rejection refers to rejection of organ transplants between two different species.

THE COMPANY

General

Arius Research Inc. ("Arius" or the "Company") was incorporated by articles of incorporation on August 11, 1999 under the *Business Corporations Act* (Ontario). By articles of amendment dated October 13, 1999, the Company amended its articles to delete the private company restrictions.

Arius is a research and development company that is attempting to develop a class of drugs through the use of monoclonal antibodies that will enable oncologists to treat specific tumours for individual cancer patients. The Company's current research and development activities are directed towards the production of antibodies related to breast cancer and melanoma. The Company intends to expand its research and development activities into other areas, including lung cancer, colon/gastro-intestinal cancer, ovarian cancer and prostate cancer.

Arius intends to commercialize the products developed from its research and development activities by entering into strategic alliances with large pharmaceutical companies to market, manufacture and distribute such products.

Arius' executive and principal office is located at 6354 Viscount Road, Mississauga, Ontario, L4V 1H3.

Background

The Company was formed by Dr. David Young, its President, Chief Scientific Officer and principal shareholder. Dr. Young has spent many years studying the phenomenon of xenograft rejection in cardiac transplantation and has come to understand that transplant rejection and cancer immunology are closely related. In transplantation the body's innate defences are suppressed so that the graft will take, but in cancer, the patient's immune system does not function as it should to reject the cancer cells. After leaving the field of xenotransplantation in 1997, Dr. Young began to formulate the technology around which Arius is based.

In 1999, with the assistance of Skye PharmaTech Inc. ("Skye"), Dr. Young was able to develop the cancer antibody technology. Arius has developed antibodies that have killed cancer cells in *in vitro* experiments while having minor effects on non-cancerous cells. See *"Business of Arius - Results of Cancer-killing Antibody Tests"*. In consideration for assistance provided by Skye, the Company has issued to Skye 400,000 Common Shares. See *"Business of Arius - Agreement with Skye"*.

INDUSTRY OVERVIEW

Cancer

Cancer is a disease characterized by uncontrolled growth and death of abnormal cells. The disease is believed to occur as a result of a number of factors, such as genetic predisposition and external (chemicals, radiation) and internal (immune status, hormones) causes. Epidemiologists estimate that the disease is responsible for the death of approximately 6,000,000 individuals throughout the world on an annual basis, with approximately 555,000 of those deaths in the United States. It is estimated that 40% of all Americans will ultimately be stricken with the disease.

Despite enormous gains made over the last two decades, cancer remains the most daunting challenge facing medical science. In North America, cancer is the second leading cause of death among adults and there is about a 25% lifetime chance of dying from cancer. Of the cancer patients who present to their doctors, half will already have tumours that have spread beyond their original site. The cancer patient usually has few options of treatment. The regimented approach to cancer therapy has produced improvements in global survival and morbidity rates. However, at least 30% of patients still fail the first line therapy. This usually leads to further rounds of treatment and the increased probability of treatment failure, metastases, and ultimately, death.

Cancer Therapies

Current cancer therapies, whether used alone or in combination, are effective in certain circumstances, but all are subject to major limitations. Radiotherapy and chemotherapy, which are directed towards fast-growing cancer cells, cause unwanted side-effects because treatment invariably also kills normal cells. Hormone ablation deprives some cancers of an essential growth factor but its application is necessarily limited. Drugs that manipulate the immune system to destroy cancer cells are generally unpredictable and are effective only in a small percentage of cases. A nascent therapy, which shows promise, targets blood vessels that supply tumours. The problem with this approach is its lack of specificity; normal blood

vessels are also affected. Moreover, it does not target the cancer cell itself. These therapies share in common a further weakness: blindness to the unique biochemical marker that each individual tumour carries. An ideal cancer treatment will have the capacity to be tailored not only to the *type* of cancer diagnosed in the patient, but also to the *specific tumour* of that patient. The Company believes that a better approach to cancer treatment is the customization of the treatment for the individual through the use of monoclonal antibodies. Monoclonal antibodies ("MAb") are man-made antibodies that are specific for only one antigen (target epitope).

Use of Antibodies in Cancer Treatment

The diagnosis of cancer is often followed by standard treatments that are non-selective and non-specific. However, it is becoming increasingly apparent that cancer is not just one disease but many. Indeed, despite surface similarities, each person's cancer is unique. While cancers arising from the same tissues do share some similar traits, each cancer usually originates from one cell in an individual's body and possesses certain characteristics, which distinguish it from all other cells. Current treatment regimens aim to kill cancer cells by taking advantage of a cancer's relatively fast proliferation rate, but the by-product of chemotherapy and radiation is damage to healthy tissues. This toxicity limits treatment doses and produces incomplete cures and treatment resistance.

The signature (i.e., antigens) of each cancer, and what distinguishes a cancer cell from normal cells, is often carried on the outside of the cell membrane in the form of glycoproteins. These cell surface proteins are decorated with sugar chains in distinctive arrangements that have served as therapeutic targets for reagents such as monoclonal antibodies. The development of MAbs in the early 1980s held out the promise of a "magic bullet" against cancer that went largely unfulfilled for a variety of reasons. The main problem was that these antibodies were produced to bind to cancer antigens and not to kill cancer cells themselves. It was thought that the antibody carrying a toxic compound, such as a radioactive substance, would hone in on the cancer cells by recognizing the abnormal epitopes on their surfaces, and kill the cells thereby producing a cure. However, the great heterogeneity of cancer epitopes was not recognized at the time, and it soon became clear that inducing cell death was more complicated than simply delivering toxins to the vicinity of the cell.

Traditionally, monoclonal antibodies have been made according to fundamental principles laid down by Nobel laureates Kohler and Milstein. Most antibodies directed against cancer cells have been produced using these methods. These antibodies have been used both therapeutically and diagnostically. In general, for both these applications, the antibody has been used as the targeting agent that delivers a payload to the site of the cancer. These antibody conjugates can either be radioactive or toxic, or can serve as intermediaries for further delivery of a drug to the tumor. Furthermore, it was widely held until recently, that naked antibodies had little effect *in vivo*. Both Herceptin and Rituximab are humanized murine monoclonal antibodies that have been recently approved for human use by the FDA. However, both these antibodies were initially made by assaying for antibody binding and their direct cytotoxicity was not the primary goal during the production of hybridomas. The tendency of these antibodies to produce tumour cell killing is through chance, not by design.

Breast Cancer

Breast cancer is the most frequently diagnosed cancer in women. In North America, breast cancer accounts for close to 18% of female cancer deaths; it is exceeded only by lung cancer which has shown a resurgence since 1985. Each year, more than 175,000 new cases of breast cancer are diagnosed in the United States alone, with more than 43,000 patients dying from it (American Cancer Society, 1999 Cancer Facts & Figures).

Breast cancer is typically considered to be a slow growing tumour. However, some patients suffer from a more aggressive form of the disease and do not respond well to any intervention. The disease has a propensity to metastasize to distant sites in the body, beginning with nearby lymph nodes and spreading to other sites such as bone, liver and brain.

Survival is excellent with early stage treatment of the disease and poor when extensive disease is present. The use of aggressive screening with technologies such as digital mammography appears to play an important role in mitigating early death due to the disease. For the treatment of breast cancer, surgical treatment, either lumpectomy or mastectomy, is usually combined with radiation therapy, chemotherapy or hormonal therapy. Multi-agent chemotherapy is the usual form of treatment, involving the use of doxorubicin and cyclophosphamide in combination with a wide variety of other agents including 5-FU, methotrexate, prednisone and vincristine. The five year survival rate is 98% for patients with localized breast cancer, 76% for patients with regional disease and 16% in women with distant metastases (American Cancer Society, 1999 Cancer Facts & Figures).

Melanoma (Skin Cancer)

Skin cancers are divided into two general types - melanoma and non-melanoma skin cancers. Non-melanoma skin cancers (usually cell and squamous cell cancers) are the most common cancers of the skin. They are called non-melanoma because they develop from skin cells other than melanocytes. Melanoma is much less common than basal cell and squamous cell skin cancers, but it is far more serious. Melanoma, like basal cell and squamous cell cancers, is almost always curable in its early stages. However, melanoma is much more likely than basal or squamous cell cancer to metastasize (spread) to other parts of the body.

Cancer of the skin is the most common of all cancers. Melanoma accounts for about 4% of skin cancer cases, but causes about 79% of skin cancer deaths.

The number of new melanomas diagnosed in the United States is increasing. Since 1973, the incidence rate for melanoma (the number of new melanomas diagnosed per 100,000 people each year) has more than doubled from 6 to 13. The American Cancer Society estimates that about 44,200 new melanomas will be diagnosed in the United States during 1999. About 7,300 people in the US were expected to die of melanomas during 1999. The five year relative survival rate for patients with melanoma localized to only the skin is between 80% to 90%. The five year relative survival rate for patients whose melanoma has spread to regional lymph nodes is 50% and for those with melanoma which has spread to distant organs or lymph nodes, the survival rate is about 20% to 30%.

Market Analysis and Competition

The world market for cancer therapeutics currently totals approximately US$6.5 billion, and is expected to increase to US$14.7 billion by the year 2002. The majority of cancer patients are people over the age of 65 and it is anticipated that as the population continues to age, cancer treatment will likely become the single largest health care expenditure in the United States, Canada and other industrialized nations (Frost and Sullivan, World Cancer Therapeutic Markets, August 1996).

Cancer is the second most common cause of pathological death in North America after cardiovascular disease. It is estimated that 1,300,000 people are afflicted by cancer annually and at least 1,500 people die from it daily. The cancer-killing drug market is vast and extremely varied, with representation by nearly every major pharmaceutical company and dozens of smaller players. Most of the available cytotoxic drugs are palliative in nature, offering longer survival rates at best, and treatment of metastatic cancers is rarely, if ever, curative. All drugs evaluated to date possess significant and dose-limiting toxicity and can induce resistance to themselves and other therapeutic agents.

The FDA has recently revised its guidelines to allow expedited approval of AIDS or cancer drugs under development. Since the spring of 1996, drug manufacturers have been permitted to market AIDS or cancer fighting compounds during Phase II trials, the reasoning being that terminally ill patients have little to lose with such experimental technologies. Partially in anticipation of the reform, there has been a large increase in cancer drugs under development (215 in 1996 according to the Pharmaceutical Research and Manufacturers Association, with 20 of these under FDA review). Included in these figures are record numbers of biotechnology-derived drugs and therapies such as monoclonal antibodies that have not met expectations in the past.

The resurgence of MAb therapy for cancer treatment arises from a greater understanding of the biology of cancer and from the tempering of optimistic claims made in the 1970s and 1980s. Clinical trials of Rituximab, developed jointly by Genentech Inc. and IDEC Pharmaceuticals Inc., have shown that Rituximab can decrease the size of non-Hodgkin's lymphoma by 50% in at least half of patients, causing only mild side effects. This result is especially significant because it would allow an increase in the dosage of the drug and affect slow-growth tumours, which comprise at least two-thirds of the 240,000 cases in the US where classic chemotherapy is limited by toxicity. Rituximab is the first MAb cancer treatment, approved by the FDA, on the market. Meanwhile, Coulter Pharmaceuticals Inc., ImmunoGen Inc., and Protein Design Labs Inc. all have MAbs under development directed at non-Hodgkin's lymphoma. Recently Genentech's anti-breast cancer MAb, Herceptin, was approved by the FDA for marketing. A Salomon Smith Barney analyst expects that Herceptin sales could reach $200,000,000 by the year 2000.

It is important to note that in situations such as cancer both the oncologist and the patient will want to increase the chance for cure and will use all modalities of treatment available to them. Therefore, the availability of other cancer therapies may actually increase demand for additional treatments that may prove to be vital to effect a cure or containment of that tumour.

BUSINESS OF ARIUS

General

Arius is a research and development company that is attempting to develop a class of drugs through the use of monoclonal antibodies that will enable oncologists to treat specific tumours for individual cancer patients. Current research and development activities are directed towards the production of antibodies related to breast cancer and melanoma. The Company intends to expand its research and development activities into other areas, including lung cancer, colon/gastrointestinal cancer, ovarian cancer, and prostate cancer.

Arius' Approach to Cancer Treatment

The prospect of individualized cancer-killing treatment should bring about a change in the way a patient is managed. A possible clinical scenario is that a tumour sample is obtained, and banked, at the time of presentation to the oncologist. From this sample, the tumour can be typed from a panel of pre-existing cancer-killing antibodies. The patient will be conventionally staged but the antibodies can be of use in further staging. The patient can be treated immediately with the existing antibodies, and Arius can then produce a panel of antibodies specific to the tumour. All the antibodies generated will be added to the library of cancer-killing antibodies since there is a possibility that other tumours can bear some of the same epitopes as the one that is being treated. In addition to cancer-killing antibodies, the patient will receive other recommended therapies as part of a multi-modal regimen of treatment. The fact that these antibodies are relatively non-toxic to non-cancer cells allows for high doses and combinations of antibodies to be used, both alone, and in conjunction with conventional therapy. The high therapeutic index will also permit re-treatment on a short time scale that should decrease the likelihood of emergence of treatment resistant cells.

If the patient is refractory to the initial course of therapy, or metastases develop, the process of generating specific antibodies to the tumour can be repeated for retreatment. Furthermore, the cancer-killing antibodies can be conjugated to red blood cells obtained from that patient and re-infused for treatment of metastases. There have been few effective treatments for metastatic cancer and metastases usually portend a poor outcome resulting in death. However, metastatic cancers are usually well vascularized and the delivery of cancer-killing antibodies by red blood cells can have the effect of concentrating the antibodies at the site of the tumour. Even prior to metastases, most cancer cells are dependent on the blood supply for their survival and cancer-killing antibody conjugated red blood cells can be effective against *in situ* tumours, too.

Business Strategy

The primary goal of Arius is to bring to market a class of drugs that will enable the oncologist to treat a specific tumour for the individual cancer patient. To obtain its objective, the Company has developed the following strategy:

- produce, and then evaluate, cancer-killing antibodies in small animal models for efficacy;
- determine the pharmacokinetic properties of cancer-killing antibodies and examine their crossreactivity with other tissues for safety;
- determine the biochemical characteristics of the monoclonal antibodies and their antigens and the mode of action of the antibodies;
- humanize the murine monoclonal antibodies and produce sufficient quantities for clinical trials;
- commence and complete pre-clinical and clinical trials and initial commercialization of the Company's cancer-killing therapeutic products;
- acquire rights to or license additional technologies and products that will assist the Company attain its objectives to develop and provide an integrated approach for the treatment of specific cancers;
- establish research collaborations and strategic partnerships to aid in the research, development, sales and marketing activities of the Company's biopharmaceutical products and establish licensing and co-development agreements for the manufacture, distribution and sale of the Company's products; and
- file and prosecute patents in the United States and Patent Co-Operation Treaty ("PCT") countries.

Results of Cancer-killing Antibody Tests

In collaboration with Skye, Arius has developed antibodies that in *in vitro* tests demonstrated that they will kill cancer cells while having a minor effect on non-cancer cells. These results are from *in vitro* tests and no assurance can be given that similar results will occur from *in vivo* experiments. The proceeds of this Offering will be used to fund the continued development of additional cancer-killing antibodies with a view to testing them in Phase I Clinical Trials.

The table below shows that there are anti-melanoma and anti-breast cancer antibodies produced by the Company that can produce up to 100% cytotoxicity against the respective cancer cell types but that are relatively non-toxic to non-transformed cells. The Company has filed a patent ("Individualized Anti-Cancer Antibodies") to protect the method of producing individualized antibodies and intends to seek patent protection for these antibodies. See *"Intellectual Property"*.

Cancer-killing Antibodies

Clones (Anti-Bodies) (a)	Target for Anti-Melanoma (Melanoma Cells Killed) (b)	Normal Skin Cells Killed (c)	Target for Anti-Breast Cancer (Breast Cancer Cells Killed) (d)	Normal Breast Cells Killed (e)
ANTI-MELANOMA ANTIBODIES				
1LN-1	59.4%	<1.0%		
1LN-12	55.2%	1.4%		
1LN-14	51.4%	<1.0%		
2LN-21	72.0%	15.9%		
2LN-28	66.6%	12.4%		
2LN-29	78.2%	6.1%		
2LN-31	100.0%	7.8%		
2LN-33	94.2%	<1.0%		
2LN-34	56.6%	11.2%		
2LN-35	66.5%	6.6%		
ANTI-BREAST CANCER ANTIBODIES				
3BD-3		3.7%	74.9%	<1.0%
3BD-6		5.6%	68.5%	<1.0%
3BD-8		4.5%	81.9%	2.6%
3BD-9		7.9%	77.2%	<1.0%
3BD-15		<1.0%	87.1%	<1.0%
3BD-26		3.3%	54.8%	<1.0%
3BD-25		3.6%	32.4%	<1.0%
3BD-27		8.3%	60.1%	1.3%

Column (a), labelled "Clones", lists certain antibodies produced by the Company. For example, the clones named 3BD are antibodies derived from the biopsy of one breast cancer victim. Columns (b), (c), (d) and (e) indicate the amount of cells the named antibody is capable of killing from an assay. Columns (b) and (d), labelled *"Target for ..."*, are either melanoma or breast cancer. It can be seen that the 3BD series of antibodies produces variable tumour death by killing 32%-87% of the cancer cells. Columns (c) and (e), labelled *"Control for ..."*, are non-cancer cells used for comparison purposes. The 3BD antibodies produce relatively little cell killing of non-cancer cells in comparison to cancer cells. The technology underlying the data shown in this table is based on the concept that anti-cancer antibodies should kill cancer cells and not normal cells and is the subject of a pending patent.

The results shown in the table are from the initial tests conducted by Arius on its novel approach to individualized cancer treatment. The results are based on cells extracted from two patients, one being a melanoma patient and the other

being a breast cancer patient. Since Arius' anti-cancer treatment is directed toward the individual patient, the results shown in the table may not be indicative of results obtained from other cancer patients.

Current Activities

Arius is actively engaged in carrying out its research and development program. Arius is currently expanding its anti-cancer antibody libraries to include anti-lung cancer and anti-gastrointestinal cancer antibodies as well as adding further examples of anti-breast cancer antibodies and anti-melanoma antibodies. Furthermore, the Company is engaged in ongoing work into elucidating the targets of the antibodies indicated in the table above.

Some of the anti-breast cancer antibodies have been investigated for their ability to bind to clinical tumour samples. These studies show that these antibodies bind minimally to normal tissues while binding avidly to cancer cells. In one instance, one of the anti-breast cancer antibodies was shown to also bind to prostate cancer. This shows that the method employed in generating individualized anti-cancer antibodies can also produce antibodies that can recognize more than one kind of tumour and may have broad utility beyond treating just one patient.

Arius has entered into a contract with Dr. J. Sandhu of the Samuel Lunenfeld Research Institute, at the Mount Sinai Hospital, Toronto, Ontario, to conduct certain parts of the pre-clinical studies including the use of SCID mice models of human cancers for testing antibodies.

Objectives

Arius is currently engaged in the tasks of creating additional antibodies and testing already existing antibodies in small animal models of cancer. The Company anticipates that the process of humanization of mouse monoclonal antibodies will commence in the second quarter of 2000, to be followed by studies necessary before the Company may commence human clinical trials. These include pharmacokinetic and toxicology studies which are expected to commence in the third or fourth quarter of 2000 pending the results of the humanization process. While no assurance can be given, it is possible that Phase I clinical trials can begin in the first half of 2001 and Phase II/III clinical trials in the first half of 2002.

Assuming the Offering is fully subscribed, the table set out below lists the objectives the Company will attempt to achieve, gives a brief description of significant events, and outlines the anticipated duration of each objective. No assurance can be given that the Company will be able to achieve these objectives or to achieve them in the time periods indicated.

Objective	Significant Events	Duration
- produce, and then evaluate, cancer-killing antibodies in small animal models for efficacy	- production of new antibodies and effective treatment of human cancers in animal model	Ongoing production of antibodies; 9-12 weeks of animal testing
- determine the pharmacokinetic properties of cancer-killing antibodies and examine their crossreactivity with other tissues for safety - determine the biochemical characteristics of the monoclonal antibodies and their antigens and the mode of action of the antibodies;	- good bioavailability and little cross reactivity - novel antigens or new signalling pathways discovered	4 - 6 weeks of pharmacokinetic experiments and ongoing task of biochemical characterization of antibodies and antigens
- humanize the murine monoclonal antibodies and produce sufficient quantities for clinical trials;	- effective humanized antibodies	12 - 36 weeks
- pre-clinical and clinical trials	- safety and efficacy in humans	3 - 6 months
- initial commercialization of the Company's cancer-killing therapeutic products;	- effective clinical trials and FDA approval	24 months to 5 years
- file and prosecute patents in USA and PCT countries.	- patents will be filed for new antibodies and antigens	ongoing tasks

Research and Development

The Company's primary focus in its research and development activities is on the development of cancer-killing antibodies for breast cancer and melanoma.

A major portion of Arius' budget will be spent on research and development. These expenditures should qualify as scientific research and experimental development expenditures under the *Income Tax Act* (Canada) and entitle Arius to tax credits, a portion of which may be refundable in cash to Arius with the remainder available as an offset against future taxes payable.

The research and development work on products and services will initially be conducted by Arius at the Mississauga facilities of Skye PharmaTech Inc. In addition, research and development programs are expected to be conducted by scientists and medical collaborators, at laboratories of universities and hospitals under research/licensing arrangements with Arius.

Potential Sources of Revenue

Sales of Products, Royalties. As Arius is a research and development company, revenue is expected to be generated from the sale of its drug products and through strategic alliances with large pharmaceutical companies to market, manufacture, and distribute drugs developed by the Company. Such an alliance - whether a collaboration, a joint venture or a licensing arrangement - could involve royalties and payments to the Company upon meeting scientific milestones and/or receipt of regulatory approval.

Antigen Discovery. The Company expects to receive revenue by licensing antigens discovered by Arius through the use of antibodies, to other biotechnology companies or to multinational pharmaceutical companies, for use as new targets for drug development. Any antigens discovered using Arius' antibodies will be known to be cancer related and therefore will be valuable. Also, the antigens recognized by antibodies will not be limited to proteins but can also be carbohydrates, lipids, or combinations thereof. This is a broader approach than gene sequencing. In addition, these antigens can be patented to provide valuable intellectual property that could generate an early revenue stream for Arius.

Diagnostics. Revenue is also expected to be generated from diagnostic cancer typing and treatment follow-up in the future. There is a shorter timeframe for the development of diagnostic products. The antibodies produced by the Company can be used for diagnostics in many formats such as cancer screening, cancer surveillance after treatment, diagnostic cancer typing and staging, diagnostic imaging, and treatment follow-up. Arius will license antibodies to third parties for this purpose which can engender another revenue stream prior to sale of therapeutic products.

Tumour Banking. The Company expects to receive fees for allowing individual patients to store their tumour samples for use in connection with future diagnosis and treatment of their disease.

Intellectual Property

Arius has filed an application, "Individualized Anti-Cancer Antibodies", in the United States for patent protection of its cancer-killing antibody. The application is being reviewed under the accelerated examination procedures and action on the merits of the application is expected in the near future. Arius intends to file this application in the PCT countries, as well as to file further patent applications to protect other aspects of individualized cancer treatment. See *"Regulatory Requirements"* below for a description of the regulatory requirements in Canada, the United States and elsewhere.

Agreement with Skye

Pursuant to an agreement (the "Services Agreement") dated October 7, 1999 with Skye, the Company issued a total of 400,000 Common Shares to Skye at a stated value of $1.00 per share in consideration for past services rendered by Skye to the Company relating to research and development of the cancer antibodies developed by Arius, as well as reagents used in the development of this technology. The Company has agreed to pay Skye a fee of $3,000 per month in return for access to Skye's research facilities. Arius may use Skye's scientists and lab personnel at an hourly rate to be agreed upon. Skye has also agreed to produce such antibodies and cells as Arius may reasonably require at a price equal to Skye's cost of producing such antibodies. Skye is required to keep all information relating to Arius and its products confidential. The Company and Skye have agreed to not compete in any manner in the other's respective fields of business during the term of this agreement and for a period to be agreed upon. The Services Agreement terminates on October 31, 2000. See *"Interests of Management in Material Transactions"*.

Employees

Arius presently has two full-time employees. Upon completion of this Offering, Arius intends to hire approximately three scientists, three technicians and a clinical/regulatory affairs expert and one administrative person. Certain aspects of scientific work will be contracted out, antibodies to Skye and testing to third party laboratories.

The Company is currently in discussions with a senior executive as to his employment with the Company. In the event that an agreement is reached to employ the senior executive, it is likely that a substantial number of options will be granted to him under the Stock Option Plan of the Company, which options will be exercisable at a price of $5.00 per share. No assurance can be given that an employment agreement will be entered into with this senior executive.

Facilities

The Company's executive offices and laboratories are located at 6354 Viscount Road, Mississauga, Ontario. These facilities are currently being provided to the Company pursuant to the agreement described under *"Agreement with Skye"*.

Diversified Medical Innovations Inc.

The Company has acquired approximately 25% of the issued and outstanding shares of Diversified Medical Innovations Inc. ("Diversified"), a start-up pharmaceutical and medical devices company. Diversified was formed on November 15, 1999 and is engaged in developing products for the non-general anesthetic anesthesia market. More procedures are done without general anesthetics than there are procedures that require putting patients asleep. Diversified has filed for patent protection of its innovative sedative-analgesic drug and delivery system. Diversified is exploiting its experience and insights into the field of anestheseology to bring about a revolution in the way procedures are carried out that will decrease the need for anesthesiologists while increasing patient safety and turnover, thereby decreasing overall costs.

MANAGEMENT DISCUSSION & ANALYSIS OF FINANCIAL RESULTS

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto appearing elsewhere in the prospectus.

Nature of Operations

Arius is a research and development company that is attempting to develop a class of drugs through the use of monoclonal antibodies that will enable oncologists to treat specific tumours for individual cancer patients. Current research and development activities are directed towards the production of antibodies related to breast cancer and melanoma. The Company intends to expand its research and development activities into other areas, including lung cancer, colon/gastro-intestinal cancer, ovarian cancer and prostate cancer. Arius intends to commence Phase I Clinical Trials within the next 12 months.

Results of Operations for the Period from August 11 to November 30, 1999

The Company has had no revenue since its inception on August 11, 1999. The Company's fiscal year end is November 30. Future revenues for the Company will come from the production and sale of commercial quantities of a class of monoclonal antibody derived drugs being developed by the Company to enable oncologists to treat specific tumours for individual cancer patients and through strategic alliances with large pharmaceutical companies to market, manufacture and distribute drugs developed by the Company. See *"Business of Arius - Potential Sources of Revenue"*.

The Company's costs relating to the development of these drugs, aggregating $395,595, have been expensed.

During the period August 11, 1999 until November 30, 1999, the Company recorded losses of $419,923. There is no prior comparable period.

Liquidity and Capital Resources

The Company has financed its operations since inception primarily through the issuance of Common Shares and the Special Warrants.

On November 30, 1999, the Company had cash on hand of $1,439,298 and a working capital of $1,431,182. The net proceeds from the issue of Class B Units under the Offering (assuming the Offering is fully subscribed) and the issue of the Special Warrants, will result in approximately $6,954,000. Such net proceeds will be used to fund the operations of the Company. See *"Use of Proceeds"*.

The Company anticipates that the net proceeds of this Offering, together with the Company's available cash resources, will be sufficient to finance its research and development and other working capital requirements for the next 18 months. The Company expects that its primary sources of capital will be through strategic alliance contracts and the public or private sale of its equity securities. In addition, long term sources of capital are expected to result from collaborative arrangements, royalties from the licensing of diagnostic and therapeutic products, and the sale of products and services. There can be no assurance that such collaborative arrangements, or any public or private financing transactions, will be available on acceptable terms, if at all, or can be sustained in the future. If adequate funds are not available, the Company may be required to delay, reduce the scope, or eliminate one or more of its research and development programs, which could have a material and adverse effect on the Company.

The Company faces a number of risks in its business that are identified under *"Risk Factors"*. The occurrence of one or more of the events described therein may have a materially adverse effect upon the Company's results of operations, financial condition and future prospects.

Taxation

The Company's current and capital expenditures should be eligible as scientific research and experimental development (SR&ED) expenditures. As a Canadian controlled private corporation, the Company can earn investment tax credits ("ITCs") at the rate of 35% on the first $2,000,000 of SR&ED expenditures each year (subject to limitations based on prior year taxable income and total capital) and 20% thereafter. The Company should also be eligible for the Ontario Innovation Tax Credit ("OITC") at the rate of 10% subject to the same limitations as the ITCs earned at the 35% rate. A portion of the tax credits (both ITCs and OITCs) is refundable in cash to the Company, upon approval by Canadian tax authorities. The non-refundable tax credit component can be applied against future income taxes payable. Tax credits are accounted for as a reduction of the related expenditure for items of a current expense nature and a reduction of the related asset for items of a capital nature when the Company has reasonable assurance that the tax credit will be utilized. As at November 30, 1999, the Company has recorded $40,000 in refundable tax credits, approximately $10,000 of which relate to capital expenditures.

REGULATORY REQUIREMENTS

General

Regulations imposed by government authorities in Canada and the United States, as well as their counterparts in other countries, are a significant factor in the conduct of the research, development, manufacturing and eventual marketing activities for the Company's proposed products. In Canada, these activities are regulated by the *Food and Drug Act* (Canada) and the rules and regulations promulgated thereunder, which are enforced by the Health Protection Branch of Health Canada ("HPB"). In the United States, drugs and biological products are subject to rigorous regulation by the Food and Drug Administration ("FDA") and in Europe by the European Medicines Evaluation Agency ("EMEA"). The regulatory processes in Canada, the United States and Europe follow the same essential steps although timing and results may be different.

The regulatory process for the development and approval of a new drug includes the conduct of pre-clinical and clinical trials. The duration of those trials and the number of subjects required to meet the requirements of the various authorities may vary according to, among other things, the disease studied, the seriousness of the side effects and the nature of the proposed treatment.

Pre-Clinical Studies

The purpose of pre-clinical studies is essentially to determine the safety, pharmacokinetics and scientific value of a new drug in animals before it is administered to humans. The data collected during pre-clinical studies must be presented in the form of an Investigation New Drug ("IND") application to the regulatory authorities in the country where clinical studies will be conducted. In the United States, unless otherwise notified, clinical studies may begin 30 days after the IND application is filed, whereas in Canada, clinical studies may not begin until 60 days after the application is submitted.

Clinical Trials

Clinical trials are generally conducted in three phases.

Phase I Clinical Studies. Phase I clinical studies are commonly performed in healthy human subjects or, more rarely, in selected patients with the targeted disease or disorder. The objective of these studies is to obtain initial pharmacokinetic

and pharmacodynamic data concerning the therapy, as well as the toxicity of the treatment and the subject's tolerance to it. Data regarding the absorption, distribution, metabolism and excretion of the drug is also compiled in Phase I clinical studies.

Phase II Clinical Studies. In Phase II clinical studies, preliminary evidence is sought regarding the pharmacological effects of the drug and the desired therapeutic efficacy with a small number of patients with the targeted disease. At this stage, efforts are made to evaluate the effects of various dosages and to establish an optimal dosage level and dosage schedule. Additional safety data may also be compiled from these studies.

Phase IIB (sometimes called Phase II/III) studies can be undertaken for serious or fatal diseases. Phase IIB studies can lead to accelerated approval of the product for commercial sale conditional upon the completion of subsequent Phase III trials. Phase IIB studies incorporate certain design and control features of Phase III studies. If data collected from Phase IIB trials are statistically significant, authorization for accelerated approval may be sought from the appropriate regulatory authorities.

Phase III Clinical Studies. The Phase III clinical development program generally consists of expanded, large-scale studies of patients with the targeted disease or disorder so as to obtain definitive statistical evidence of the efficacy and safety of the proposed product and dosing regimen in comparison with standard therapy.

The HPB, FDA or EMEA may interrupt clinical studies at any stage if the drug has a clear efficacy advantage or, alternatively, if the health of the subjects is threatened or the side effects are not compensated for by the drug's benefits.

Regulatory Approval

Once Phase III clinical studies have been completed, the applicant will compile all results, as well as all information concerning the product and its composition, synthesis, manufacture, packaging and labelling methods, for the purpose of obtaining approval to market the product. This application is known as a New Drug Application ("NDA") in the United States and as a New Drug Submission ("NDS") in Canada. The study of a NDA or a NDS generally takes two to three years, except for cancer and AIDS treatments which have recently been approved within an 18-24 month time frame, and government authorities may then require that Phase IV studies be performed after the product is marketed to assess its long-term effects.

Since drug manufacturing is also regulated, the applicant is required to ensure that it complies with the cGMP, which are quality standards that require the control of production activities, raw-material procurement, complaint management, product recalls, labelling and promotional material. In addition to these standards, which are common to all drugs, manufacturers of biopharmaceutical products must demonstrate that their production is homogeneous from one lot to the next, otherwise, the regulatory authorities concerned may prohibit the sale of a lot and possibly require that a product be recalled.

Accelerated Approval

The FDA has regulations which are intended to accelerate the process involved in validating the development, assessment and marketing of new diagnostic drugs or drugs used for the treatment of serious diseases for which there is no other satisfactory treatment. The fast-track designation enables the FDA to collaborate in the process of establishing research protocols and enables, but does not oblige, the FDA to approve the marketing of the product immediately after the conclusion of Phase II clinical studies. The FDA may nonetheless require that Phase III clinical tests be completed even if prior approval for marketing has been received. The HPB and EMEA also have a priority assessment procedure to approve new drugs for the treatment of serious diseases for which there is no other satisfactory alternative treatment. The primary goal of Arius is to introduce into the market a class of drugs that will enable oncologists to treat a specific tumour for the individual. The Company intends to enter Phase I Clinical Trials within the next 12 months. As Arius will be primarily a research and development company, its revenues will come from the outright sale of its technologies and/or a strategic alliance with a large pharmaceutical company to market, manufacture, and distribute its drugs. Such an alliance - whether a collaboration, a joint venture or a licensing arrangement - would likely involve royalties and payments tied to meeting further scientific milestones and passing regulatory approval stages. Other sources of revenue will be generated from diagnostic cancer typing and treatment follow-up.

CAPITALIZATION

The following table sets forth the capitalization of the Company as at November 30, 1999 and March 7, 2000 and as at March 7, 2000 after giving effect to the Offering and the exercise of the Special Warrants.

	Authorized	Outstanding as at November 30, 1999	Outstanding as at March 7, 2000	Pro-Forma Outstanding as at March 7, 2000[1]
Common Shares	unlimited	2,000,000 shs ($400,001)	2,000,000 shs ($400,001)	4,050,000 shs[2] ($7,354,001)
Class A Special Warrants	850,000	850,000 wrts ($1,474,000)	850,000 wrts ($1,474,000)	nil
Class B Special Warrants	200,000	nil	200,000 ($1,000,000)	nil

(1) Gives effect to the issue of the Class B Units under the Offering (assuming the Offering is fully subscribed) and the exercise of the Special Warrants.

(2) A total of 4,685,000 Common Shares will be reserved for issue following the Offering as follows:

(a) 2,850,000 Common Shares will be reserved for issue upon exercise of the Class A Warrants;

(b) 1,200,000 Common Shares will be reserved for issue upon exercise of the Class B Warrants;

(c) 410,000 Common Shares will be reserved for issue upon exercise of the Compensation Options and the exercise of the Class A Warrants and the Class B Warrants to be issued on exercise of the Compensation Options referred to under *"Plan of Distribution"*; and

(d) 225,000 Common Shares are reserved for issue upon exercise of options granted to directors and officers under the Stock Option Plan of the Company as described under *"Executive Compensation - Stock Option Plan"*.

(3) After deducting expenses of this issue estimated at $250,000 and the Agent's Commission of $496,000.

DESCRIPTION OF SHARE CAPITAL

Authorized Capital

The authorized capital of Arius consists of an unlimited number of non-voting preference shares ("Preference Shares") issuable in series and an unlimited number of Common Shares. There are 2,000,000 Common Shares and no Preference Shares issued and outstanding.

Common Shares

Each Common Share entitles the holder to one vote at all meetings of shareholders, to receive dividends as and when declared by the directors and to receive pro-rata the net assets of Arius in the event of its liquidation, dissolution or winding-up or other distribution of assets among its shareholders. There are no pre-emptive, redemption or conversion rights attached to the Common Shares.

Preference Shares

Preference Shares are issuable, from time to time, in one or more series, as determined by the Board of Directors of Arius. Preference Shares, if issued, rank prior to the Common Shares with respect to the payment of dividends and the distribution of assets in the event of the dissolution of Arius, or the distribution of all or part of its assets among the shareholders for an amount equal to the value of the consideration paid in respect of such outstanding shares. Subject to the provisions of *Business Corporations Act,* (Ontario) the Preference Shares do not carry voting rights.

PRIOR SALES

On August 11, 1999, one Common Share was issued by the Company at a price of $1.00.

On October 7, 1999, the Company issued 1,599,999 Common Shares to Dr. Young in consideration for the transfer to the Company of Dr. Young's interest in the cancer antibody technology being developed by him. These shares were issued at a price of $1.00 per share pursuant to the Transfer Agreement described under *"Interest of Management in Material Transactions"*.

On October 7, 1999, the Company issued 400,000 Common Shares at $1.00 per share to Skye pursuant to the Services Agreement described under *"Agreement with Skye"*.

On October 11, 1999, the Company distributed a total of 2,000,000 Class A Warrants to its shareholders.

PLAN OF DISTRIBUTION

Class A Special Warrants

On October 21, 1999 and November 10, 1999, the Company, issued and sold a total of 850,000 Class A Special Warrants at a price of $2.00 per Special Warrant, pursuant to an agreement (the "Class A Special Warrant Agency Agreement") dated September 30, 1999, as amended, between the Company and the Agent. In consideration of services performed in connection with such Private Placement, the Agent was paid a fee of $136,000, being 8% of the gross proceeds, and was granted a non-assignable option, exercisable at any time on or before October 21, 2001 to purchase a total of 85,000 Class A Units at a price of $2.00 per unit. In addition, the Company has agreed to pay to the Agent an amount equal to 4% of proceeds received from the exercise of the Class A Warrants.

Subject to adjustment, each Class A Special Warrant entitles the holder to receive, upon exercise and without additional payment, a Class A Unit consisting of a Common Share in the capital of the Company and one Class A Warrant of the Company at any time on or before the date (the "Class A Expiry Date") which is the earlier of: (i) the fifth business day after the date that a receipt is issued by the Ontario Securities Commission for the final prospectus qualifying the Common Shares and the Class A Warrants to be issued upon exercise of the Special Warrants; and (ii) October 31, 2000. Any Class A Special Warrants that have not been exercised on the Class A Expiry Date will be deemed to be exercised immediately prior to such date, without any further action on the holder's part. If a receipt for this Prospectus has not been issued by the Ontario Securities Commission on or before March 20, 2000, Special Warrants exercised thereafter will entitle the holders to receive, without further payment, 1.1 Class A Units for each Special Warrant exercised or deemed to be exercised at no additional cost to the holder.

Class B Special Warrants

On March 7, 2000, the Company, issued and sold a total of 200,000 Class B Special Warrants at a price of $5.00 per Special Warrant, pursuant to an agreement (the "Class B Special Warrant Agency Agreement") dated March 3, 2000, between the Company and the Agent. In consideration of services performed in connection with such Private Placement, the Agent was paid a fee of $60,000, being 6% of the gross proceeds, and was granted a non-assignable option, exercisable at any time on or before March 31, 2002 to purchase a total of 20,000 Class B Units at a price of $5.00 per unit. In addition, the Company has agreed to pay to the Agent an amount equal to 4% of proceeds received from the exercise of the Class B Warrants.

Subject to adjustment, each Class B Special Warrant entitles the holder to receive, upon exercise and without additional payment, a Class B Unit consisting of a Common Share in the capital of the Company and one Class B Warrant of the Company at any time on or before the date (the "Class B Expiry Date") which is the earlier of: (i) the fifth business day after the date that a receipt is issued by the Ontario Securities Commission for the final prospectus qualifying the Common Shares and the Class B Warrants to be issued upon exercise of the Special Warrants; and (ii) March 3, 2000. Any Class B Special Warrants that have not been exercised on the Class B Expiry Date will be deemed to be exercised immediately prior to such date, without any further action on the holder's part. If a receipt for this Prospectus has not been issued by the Ontario Securities Commission on or before March 20, 2000, Special Warrants exercised thereafter will entitle the holders to receive, without further payment, 1.1 Class B Units for each Special Warrant exercised or deemed to be exercised at no additional cost to the holder.

Offering

Pursuant to an agreement (the "Unit Offering Agency Agreement") dated March 7, 2000 between the Company and the Agent, the Agent has agreed to act as exclusive agent of the Company to offer for sale to the public, on a best efforts basis, the 1,000,000 Class B Units offered hereby. Each Class B Unit consists of one Common Share and one Class B Warrant. The Class B Units are being offered to the public at a price of $5.00 per unit. The commission payable to the Agent is $0.30 per Class B Unit, being an aggregate of $300,000 if the Offering is fully subscribed. As additional consideration for its services under the Offering, the Company has undertaken to issue an option in respect of 10% of the Class B Units sold under the Offering exercisable at a price of $5.00 per unit at any time on or before March 31, 2002. The Company has agreed to pay to the Agent an amount equal to 4% of the gross proceeds received by the Company from the exercise of the Class B Warrants as and when they are received.

The Agent has agreed to use their best efforts to secure subscriptions for the Class B Units on behalf of the Company. Subscriptions received will be subject to rejection or allotment in whole or in part and the right is reserved to close the subscription book at any time without notice. The obligations of the Agent under the Unit Offering Agency Agreement may be terminated at any time at their sole discretion on the basis of their assessment of the state of the financial markets and the occurrence of certain stated events.

The offering price of the Class B Units was determined by negotiations between the Company and the Agent. The offering of the Class B Units is not subject to any minimum offering. Therefore, any subscription funds received in respect of subscriptions will be taken up by the Company and will not be refunded to subscribers unless the Offering does not proceed at all.

It is expected that the closing of the Offering will take place on or before March 23, 2000.

DESCRIPTION OF SHARE PURCHASE WARRANTS

The following is a summary of the material provisions of the Class A Warrants and Class B Warrants (collectively, the "Share Purchase Warrants") and is subject to the detailed provisions of the Class A Warrants and the Class B Warrants and the Warrant Indentures referred to below.

The Share Purchase Warrants will be issued in registered form. The Class A Warrants will be issued pursuant to an indenture (the "Class A Warrant Indenture") dated as of September 30, 1999 entered into between the Company and Equity Transfer Services Inc., as warrant agent (the "Warrant Agent"). The Class B Warrants will be issued pursuant to an indenture (the "Class B Warrant Indenture") to be entered into between the Company and the Warrant Agent. The Share Purchase Warrants may be surrendered for exercise, exchange or replacement at the principal office of the Warrant Agent in Toronto. The Class A Warrant Indenture provides for the issue of up to 2,935,000 Class A Warrants, being the maximum number of Class A Warrants issuable upon the exercise of the Class A Special Warrants and the Compensation Options issued in respect thereof and to the distribution of 2,000,000 Class A Warrants described under *"Prior Sales"*. The Class B Warrant Indenture will provide for the issue of 1,320,000 Class B Warrants, being the maximum number of Class B Warrants issuable upon exercise of the Class B Special Warrants and under the Offering.

Each Class A Warrant will entitle the holder thereof to purchase one Common Share at a price of $4.00, subject to adjustment in certain events, at any time on or before October 31, 2002. Each Class B Warrant will entitle the holder thereof to purchase one Common Share at a price of $7.50, subject to adjustment in certain events, at any time on or before March 31, 2003. In the event that the Common Shares are quoted or publicly listed on the Canadian Dealing Network Inc. or a Canadian stock exchange, the Share Purchase Warrants may be redeemed by the Company for $0.01 per Share Purchase Warrant upon 30 days written notice following any date upon which the weighted average market price of the Common Shares over the period of 20 consecutive business days ending not more than five trading days prior to such date has equalled or exceeded $6.00 per share, in respect of the Class A Warrants, and $12.00 per share, in respect of the Class B Warrants, subject to adjustment in certain events, in each case.

The Share Purchase Warrants will provide for the adjustment of the exercise price and, in certain events, the number of Common Shares issuable on exercise of the Share Purchase Warrants, on the occurrence of certain events, including: (i) the subdivision, redivision, or consolidation of outstanding Common Shares; (ii) the distribution by the Company of Common Shares (or securities convertible into Common Shares) to all or substantially all the holders of Common Shares by way of a stock dividend or other distribution; (iii) the issue of rights, options or warrants to all or substantially all of the holders of Common Shares entitling them within a period of 45 days to acquire Common Shares (or securities convertible into Common Shares) at less than 90% of the fair market price as determined by the Board of of Arius; (iv) the distribution to all or substantially all the holders of Common Shares of securities other than Common Shares or rights, options or warrants (other than those described in (iii)), or of property or other assets (including evidences of indebtedness); (v) a reclassification of the Common Shares; (vi) an amalgamation, merger or arrangement of the Company with another entity; and (vii) a transfer of all or substantially all of the Company's assets.

The Company will give at least 21 days notice to the holders of Share Purchase Warrants of the Company's intention to fix the record date for the issuance of rights, options or warrants to all or substantially all of the holders of its outstanding Common Shares. Arius will not be required to make any adjustment to the exercise price unless the cumulative effect of the adjustment and other adjustments not previously made would change the exercise price then in effect by at least 1%.

The Share Purchase Warrants will provide that modifications and alterations to the Share Purchase Warrants may be made if authorized by extraordinary resolution. The term "extraordinary resolution" will be defined in the Warrant Indentures to mean, in effect, a resolution passed by the affirmative vote of the holders of not less than 51% of the outstanding Share Purchase Warrants represented and voting at a meeting of holders or an instrument or instruments in writing signed by the holders of not less than 75% of the outstanding applicable Share Purchase Warrants.

No fractional Common Shares will be issued on the exercise of any Share Purchase Warrant. In lieu of fractional shares, the holder will receive a cash payment.

Holders of the Share Purchase Warrants have no voting rights, preemptive rights or any other rights as a shareholder of the Company.

Subject to compliance with the provisions of the Warrant Indentures and the requirements of applicable securities legislation, the Share Purchase Warrants are transferable.

The Company has agreed to pay to the Agent an amount equal to 4% of the proceeds received from the exercise of the Share Purchase Warrants as and when they are exercised.

ELIGIBILITY FOR INVESTMENT

In the opinion of Blake, Cassels & Graydon LLP ("Counsel"), the following is an accurate general summary of the considerations under the *Income Tax Act* (Canada) (the "Act") generally applicable to trusts ("Plan Trusts") governed by registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), registered education savings plans ("RESPs") and deferred profit sharing plans ("DPSPs") (collectively, "Deferred Income Plans") which acquire Class B Units pursuant to this Offering, or Class A Units, or Class B Units, upon the exercise, or deemed exercise of the Special Warrants. The summary is based upon the current provisions of the Act, Regulations under the Act, specific proposals (the "Proposals") to amend the Act and Regulations publicly announced by the Department of Finance prior to the date hereof and Counsel's understanding of the published administrative and assessing practices of the Canada Customs and Revenue Agency. Otherwise, it does not take into account or anticipate any changes in the law, or the administration thereof, whether by legislative, governmental or administrative action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations. No assurance can be given that the Proposals will be enacted in their present form or at all.

The Company is not currently a "public corporation" for purposes of the Act, and may not become a "public corporation" in the immediate future or at all. Unless and until the Company becomes a "public corporation" for purposes of the Act, based in part upon representations and a certificate received from the Company by Counsel, it is the opinion of Counsel that the Common Shares, the Class A Warrants and the Class B Warrants are "qualified investments" for purposes of the Act for a RRSP, RRIF or RESP, provided that immediately after the time the RRSP, RRIF or RESP acquires the Common Shares, the Class A Warrants or the Class B Warrants each person who is an annuitant, a beneficiary, or a subscriber under the RRSP, RRIF or RESP is not a "connected shareholder" of the Company for purposes of the Regulations under the Act.

A person will generally not be a "connected shareholder" if neither the person, nor any person with whom person does not deal at arm's length, nor such persons together owns directly or indirectly 10% or more of the shares of any class or series of the Company or of any corporation related to the Company. For these purposes, a particular person will be deemed to own shares acquired by a RRSP, RRIF or RESP of which the particular person is an annuitant, beneficiary or subscriber as well as shares owned by any other persons with whom the particular person does not deal at arm's length. The particular person will also be deemed to own a proportion of shares owned by a partnership or trust of which he or she is a partner or beneficiary, and all shares that he or she or any such non-arm's length person has a right to acquire at any time in the future.

As well, a person will not be a "connected shareholder", even if the "less than 10% share ownership" test described above is not met, if the cost amount of all shares and rights to acquire shares of the Company and of any corporations related to the Company owned or deemed to be owned by the person or such non-arm's length person (as previously described) is less than $25,000 at that time, and the person deals at arm's length with the Company.

Unless and until the Company becomes a "public corporation" for purposes of the Act, the Common Shares, the Class A Warrants and the Class B Warrants will not be "qualified investments" for purposes of the Act for DPSPs. There are no assurances that the Company will become a "public corporation".

The annuitant, beneficiary or subscriber under a Deferred Income Plan may be subject to Canadian federal income tax upon acquisition of Common Shares, Class A Warrants or Class B Warrants by the Plan Trust if they are "non-qualified investments", and the Plan Trust may also be subject to penalty taxes by virtue of the holding of Common Shares, Class A Warrants or Class B Warrants which are "non-qualified investments" by the Plan Trust. A Plan Trust may also be subject to Canadian federal income tax in respect of any income from "non-qualified investments" and the gain (if any) realized by the Plan Trust on any disposition of Common Shares, Class A Warrants or Class B Warrants which are "non-qualified investments". Such taxes are generally calculated with reference to the fair market value at the time of acquisition or disposition of Common Shares, Class A Warrants or Class B Warrants which are "non-qualified investments", as the case may be. **Persons holding Common Shares, Class A Warrants, Class B Warrants, or Special Warrants through a trust governed by a Deferred Income Plan are urged to consult their own tax advisors in this regard.**

In the opinion of Counsel, based on representations and a certificate received from the Company by Counsel, the Common Shares, the Class A Warrants and the Class B Warrants are not "foreign property" for purposes of the Act.

This summary is of a general nature only and is not, and should not be interpreted as, legal or tax advice to any particular investor. Investors should consult their own tax advisors with respect to their particular circumstances before acquiring the Common Shares, the Class A Warrants or the Class B Warrants through an RRSP, RRIF or RESP.

USE OF PROCEEDS

The net proceeds from the sale of the Class B Units (assuming the Offering is fully subscribed) and the Special Warrants are estimated to be $6,954,000 (after deducting the respective fees paid or payable to the Agent and the estimated expenses associated with such offerings) which will be used (i) as to $2,500,000, to fund clinical trials, (ii) as to $2,150,000, to fund research and the operations of Arius, and (iii) the balance will be used for working capital.

DIRECTORS AND OFFICERS

The names, municipalities of residence, and principal occupations of the directors and officers of the Company are as follows:

Name and Municipality of Residence	Position with the Company	Principal Occupation
David Young Toronto, Ontario	Director, President and Chief Scientific Officer	Officer of the Company
William T. Bodenhamer North York, Ontario	Director	President of Toxin Alert Inc., a research and development company
Dan Andersen Toronto, Ontario	Director	Chairman & CEO, TriTec Power Systems Ltd., a technological development company
Brian R. MacLeod San Francisco, California	Director	Vice President, Global Technology Group, Wasserstein Perella & Co. Inc., an investment banking and financial services firm
Eugene Bortoluzzi Kleinberg, Ontario	Chief Financial Officer	Chief Financial Officer of Skye PharmaTech Inc.
Robert A. Bondy Toronto, Ontario	Secretary	Partner, Blake, Cassels & Graydon LLP, law firm

All of the above directors and officers have held the same occupation, or similar occupations, with the same entities except as described below under *"Management"* and except for William Bodenhamer who, prior to September, 1998, was a private investor; Mr. Andersen who, from June 1995 to September 1997, was President of Truestone Inc., a manufacturer, from September 1993 to March 1995, was Vice President of Sales of Unisys Canada Inc, a computer manufacturer, from 1992 to 1993, was General Manager of Information Systems Management Corp., a subsidiary of IBM Canada Limited, and prior to 1992 was director of Marketing, Large Systems of IBM Canada Limited, a computer manufacturer; and Mr. MacLeod who prior to January 2000 was an Executive Director in the Technology Investment Banking Group at CIBC World Markets Inc. and prior to May, 1997 was an Associate and then Vice President in the Mergers & Acquisitions Group at RBC Dominion Securities Inc.

Management

Arius' management team consists of experienced scientists and management personnel that have a proven track record of commercial success.

Dr. David Young, President, Chief Scientific Officer and founder of the Company. Dr. David Young has spent many years studying the phenomenon of xenograft rejection in cardiac transplantation and has come to understand, as have many others, that transplant rejection and cancer immunology are closely related. In transplantation physicians would like to suppress the body's innate defences so that the graft will take, but with cancer doctors would prefer to boost the patient's immune system to reject the tumour. It was only after having left the field of xenotransplantation and having contemplated

the impact that cancer had on the people around him that he formulated the technology around which Arius is based. Dr. Young received his Doctor of Medicine degree from University of Toronto in 1990 and a Master of Science from University of Toronto in 1996. Dr. Young has been a clinical associate in the Division of Cardiovascular Surgery at St. Michael's Hospital, Toronto, since 1997.

Mr. Eugene Bortoluzzi has agreed to act as the Company's Chief Financial Officer on a part-time basis. Mr. Bortoluzzi is Executive Vice President and Chief Financial Officer of Skye PharmaTech Inc. Prior to March, 1997, he was Chief Financial Officer, Secretary, Treasurer and Controller of Spectral Diagnostics Inc. Mr. Bortoluzzi's career includes six years' experience with the audit firms of Ernst & Young and KPMG. Since leaving public accounting, he has held positions ranging from Controller to Vice-President, Finance and Administration. Mr. Bortoluzzi has extensive experience in U.S. and Canadian stock market regulatory affairs, financial control and auditing.

As Arius develops, it is the intention of the current board to establish a board of directors with diverse professional backgrounds, experience and expertise, composed of representatives from the business, professional, medical and biotechnology fields.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table shows the aggregate remuneration paid by the Company during the period from incorporation of the Company on August 11, 1999 to November 30, 1999 to the person serving as the chief executive officer of the Company.

		Annual Compensation			Long-Term Compensation Awards			
					Awards		Payouts	
Name and Principal Position	Year	Salary $	Bonus ($)	Other Annual Compensation ($)	Securities Under Options Granted #	Restricted Shares or Restricted Share Units ($)	LTIP Payouts ($)	All Other Compensation ($)
Dr. David Young, President and Chief Scientific Officer	1999	nil[(1)]	nil	nil	nil	nil	nil	nil

(1) For the period from August 11, 1999 to November 30, 1999, the Company paid a management fee of $12,500 to a company controlled by Dr. Young.

Compensation of Directors

Directors of the Company have not received cash compensation for services provided in their capacity as directors, but the Company does reimburse directors for expenses incurred by them in their capacity as directors for attending meetings. The Company currently does not maintain directors' and officers' insurance for its directors, but it plans to obtain such insurance for its directors in the future. The Company has granted options to its directors under the stock option plan. See *"Stock Option Plan"*.

Stock Option Plan

Arius has established a stock option plan (the "Stock Option Plan") providing for the issuances of options to acquire up to 800,000 Common Shares of the Company to eligible persons, including directors, officers, employees and consultants of the Company. The board of directors may designate the recipients of options and determine the number of Common Shares covered by each such option, the date of grant, the exercise price and expiry date as well as determine any other questions relating thereto. Options will be non-transferrable except in the event of an optionee's death.

On December 8, 1999, the board of directors of the Company issued options under the Stock Option Plan to directors and officers in respect of a total of 175,000 Common Shares. On January 17, 2000, the board of directors issued options in respect of 50,000 Common Shares to a director of the Company. All of the options were granted for a term of three years and have an exercise price of $2.00 per share.

The following table sets forth information with respect to options to purchase Common Shares which have been issued under the Stock Option Plan and are currently outstanding.

Optionees	Number of Optionees	Number of Securities Under Option	Purchase Price of Securities Under Option	Expiry Date of Option	Market Value of Securities Under Option on Date of Grant[1]	Current Market Value of Securities Under Option[2]
Executive Officers	2	75,000	$2.00	December 7, 2002	$2.00	$5.00
Directors who are not Executive Officers	2 1	100,000 50,000	$2.00 $2.00	December 7, 2002 January 16, 2003	$2.00 $2.00[2]	$5.00 $5.00

(1) The market value of these securities under option on the date of grant is shown as $2.00 per share, being the issue price of the Class A Special Warrants.

(2) The current market value of securities under option is shown as $5.00, being the offering price of the Offered Units.

DIVIDEND POLICY

To date, the Company has not paid a dividend. The declaration, amount and date of distribution of any dividends in the future will be decided by the Board of Directors based upon and subject to the Company's earnings, financial requirements and other conditions prevailing at the time.

PRINCIPAL HOLDERS OF THE SECURITIES

To the knowledge of the directors and senior officers of the Company, no person or corporation beneficially owns or exercises control or direction over more than 10% of the Common Shares of the Company except as shown below:

Name	Number of Common Shares Owned	% of Common Shares Before the Offering	Pro Forma % of Common Shares[2]
Dr. David Young	1,500,000 shs[1]	75%	37.03%
Skye PharmaTech Inc.	400,000 shs	20%	9.87%

(1) In addition to the above, Dr. Young owns 1,500,000 Class A Warrants and Skye owns 400,000 Class A Warrants.

(2) Gives effect to the issue of the Common Shares under the Offering (assuming the Offering is fully subscribed) and the exercise of the Special Warrants.

The directors and executive officers of the Company, as a group, beneficially own, directly or indirectly, 1,500,000 Common Shares representing 75% of the total outstanding Common Shares and 37.03% after giving effect to the issue of the Common Shares offered under the Offering (assuming the Offering is fully subscribed) and the exercise of the Special Warrants.

PROMOTER

Under applicable securities laws, Dr. David Young may be considered to be a promoter of the Company in that he took the initiative in founding and organizing the Company.

INTERESTS OF MANAGEMENT IN MATERIAL TRANSACTIONS

Dr. David Young, a director, President and Chief Scientific Officer and a principal shareholder of the Company, has entered into an agreement dated as of the 7th day of October, 1999 (the "Transfer Agreement") wherein the Company acquired all of the right, title and interest to the cancer-killing antibody technology from Dr. Young. In the Transfer Agreement, the Company agreed to use its best efforts to develop this technology in accordance with good business practices. In consideration, Dr. Young received from the Company 1,599,999 Common Shares. Dr. Young subsequently transferred 100,000 Common Shares and 100,000 Class A Warrants to an arm's-length third party.

William T. Bodenhamer, a director of the Company, is a director of Skye. Mr. Bortoluzzi, the Chief Financial Officer of the Company, is Executive Vice President and Chief Financial Officer of Skye. The Company has entered into the Services Agreement with Skye described under *"Business of Arius - Agreement with Skye"*. Under the Services Agreement, Skye has

received a total of 400,000 Common Shares for past services rendered to the Company. Skye is also entitled to receive a payment of $3,000 per month for services to be rendered to the Company. Arius will have access to Skye's scientists and lab personnel at a reasonable hourly rate to be agreed upon. The Services Agreement is to terminate on October 31, 2000.

ESCROWED SHARES

Pursuant to an escrow agreement (the "Escrow Agreement") dated March 7, 2000, among Dr. David Young, Skye and Equity Transfer Services Inc. (the "Escrow Agent"), a total of 1,896,595 Common Shares (the "Escrowed Shares") have been deposited with the Escrow Agent. The Escrowed Shares represent approximately 46.82% of the issued and outstanding Common Shares after giving effect to the Offering (assuming the Offering is fully subscribed) and the exercise of all of the Special Warrants. The Escrow Agreement provides that, unless released prior thereto with the consent of the Ontario Securities Commission (the "Commission"), the Escrowed Shares will be released by the Escrow Agent as follows: as to 10% of the Escrowed Shares (the "Initial Release"), on the expiration of nine months following the date that a receipt for this prospectus in its final form is issued by the Commission and as to 20% of the Escrowed Shares, on each of the first, second and third anniversaries of the Initial Release and as to 30% of the Escrowed Shares on the fourth anniversary of the Initial Release.

INDEBTEDNESS OF THE DIRECTORS AND SENIOR OFFICERS

No officer, director or employee, or former officer, director or employee of the Company or any of its subsidiaries, nor any associate of any such officer, director or employee is currently, or has been, indebted at any time during the last completed financial year to the Company or any of its subsidiaries nor has the indebtedness of any such officer, director or employee at any time during the last completed financial year been the subject of a guarantee, support agreement, letter of credit or other similar arrangement.

RISK FACTORS

An investment in securities of the Company will involve a number of potential risks. The following risk factors should be carefully considered.

No Operating History

The securities issued should be regarded as speculative due to, among other things, the start-up stage of the development of Arius. Arius has to date been engaged primarily in research and development activities. Arius' potential products will require significant additional development, pre-clinical and clinical testing, regulatory approval, and additional investment prior to commercialization. At present, Arius has no products for sale and does not expect to have any available for several years, if at all. Arius has no operating history. The likelihood of the success of Arius must be considered in light of the risks inherent in, and the difficulties, costs and complications associated with the start-up and early growth stages of a business enterprise as well as with the development and marketing of new technologies. Due to its start-up stage of business and the fact that it has no operating history, results from operations are inherently more difficult to predict, and as a result, the Company may sustain operating losses.

No Guarantee of Development Success

The prospects for companies operating in the biotechnology industry may generally be considered to be uncertain, given the very nature of the industry, and accordingly, investments in biotechnology companies should be considered to be speculative. It is impossible to ensure that the research and development conducted by Arius will result in the creation of profitable products. In order for the products developed by Arius to gain a certain degree of commercial success, clinical tests must demonstrate their safety and effectiveness on humans. No assurance can be given that future studies, if any, will yield favourable results.

Cancer-killing Monoclonal Antibodies

Arius has now conducted preliminary experiments to verify the feasibility of producing anti-cancer antibodies. There have been attempts in the past to produce anti-cancer antibodies using cancer cells for immunization, but these have met with limited success. There is significant risk that the Arius technology will not overcome the limitations imposed by the cancer cell immunization approach. If antibodies are generated that have cytotoxic effects, these antibodies may not be specific for only

cancer cells or be therapeutically effective. Even though the antibodies are experimentally effective, there is still the possibility that the humanization process will produce an ineffective antibody.

No Processing and Marketing Capability and No Guarantee of Success

Arius does not intend to process or market any products it develops. The financial success of such products will be dependant upon the efforts of third parties. There is no assurance that marketing and processing arrangements will be obtained or, if obtained, will be profitable to Arius.

Dependence on Key Personnel

To date Arius has only two employees including Dr. David Young. Arius does not yet maintain "key man" insurance on Dr. Young. The loss of Dr. Young would adversely affect the business of Arius. Recruiting and retaining qualified scientific personnel to perform research and development work is critical to Arius' success. There is intense competition for qualified personnel in the areas of Arius' activities, and there can be no assurance that Arius will be able to attract and retain such personnel on acceptable terms.

Arius' product-development capacity will depend to a great extent on its ability to attract and retain highly qualified staff, as well as to establish and maintain relations with research centres. The competition in this regard is very severe. Arius' success is dependent to a great degree on its senior officers, its scientific personnel, as well as its consultants and collaborators. The loss of key personnel and/or the failure to enter into arrangements with collaborators, would compromise the pace and success of product development.

Need to Manage Growth and Expansion

In order to manage its operations and any future growth effectively, the Company will need to implement and improve its operational, financial and management information systems. There can be no assurance that the Company will be able to manage such growth effectively and failure to do so could have an adverse effect on the Company's business, financial condition and results of operations.

Future Capital Needs - Uncertainty of Additional Funding

Arius will require substantial additional funds beyond seed capitalization before it can expect to realize significant product revenue. Arius' working capital needs will depend upon numerous factors, including the progress of its research and development activities, the timing and results of pre-clinical and clinical testing, the timing and cost of obtaining regulatory approvals, and the ability of Arius to establish and maintain favourable collaborative arrangements. Arius anticipates that the net proceeds from the current placement will be sufficient to fund its operating expenses and capital requirements as currently planned through late 2000.

Arius may need to raise additional funds in the future in order to continue research and development and to take advantage of its growth opportunities. There can be no assurance that additional financing will be available on terms acceptable to Arius, if at all. If adequate funds are not available, or are not available on acceptable terms, Arius may not be able to take advantage of opportunities, develop new products or respond to competitive pressures.

Reliance on Third Parties

Arius' strategy for the development and commercialization of its products entails entering into arrangements with corporate, government, and academic collaborators, third party manufacturers, licensors, licensee and others. There can be no assurance that such outside parties will perform their obligations as expected or that Arius will be able to maintain existing or establish new collaborative agreements.

Exclusive Patents and Technologies

Arius' success will depend, in part, on its ability to obtain patents, protect its trade secrets and operate without infringing the exclusive rights of third parties. Although Arius intends to file patent applications in the United States and in other jurisdictions, there is no guarantee that it will obtain the patents or that it will develop patentable products. Moreover, there is no proof that any patent that is granted to Arius will make the product more competitive, that its patent protection will not be contested by third parties or that the patents of others will not be detrimental to Arius' commercial activities. It cannot be assured that other companies will not independently develop products similar to Arius' products, that they will not imitate any of its products or that, if Arius obtains its patents, its competitors will not manufacture products designed to

circumvent the exclusive patent rights granted to Arius. Arius may also be required to obtain licences under patents or other exclusive rights from third parties. There is no guarantee that any licence required under these patents or other exclusive rights will be offered upon conditions acceptable to Arius.

There is no guarantee that a third party may not attempt to make claims against Arius having any technologies owned or developed by Arius.

Regulatory Approval

Arius' planned R&D and clinical programs are subject to extensive regulation by numerous government authorities in the United States and other countries. Most of Arius' products will require governmental approvals for commercialization, none of which has yet been obtained. Pre-clinical and clinical trials of new drugs are subject to the rigorous testing and approval processes of the FDA and corresponding foreign regulatory authorities. The approval of new drugs is an expensive and multi-year process in which success is predicated on demonstrating that the candidate drug is safe and effective. Arius cannot offer any guarantees that all or any of its products will meet all regulatory requirements within a reasonable period of time, if at all. Data obtained from pre-clinical or clinical testing are susceptible to varying interpretations which can delay, limit, or prevent, regulatory approval. In addition, delays or rejection may occur due to changes in regulatory policies during the period of drug development, particularly where novel technologies are involved. There is presently limited regulatory precedent by the FDA for approval of products based on monoclonal antibodies. When, or if, such guidelines appear, it is possible that Arius will be unable to satisfy them. Fortunately, this additional uncertainty is balanced by the fact that the FDA has recently amended its guidelines to allow expedited approval for anti-cancer therapeutics.

Lack of Revenue

To date, Arius has not generated any revenues to offset its research and development costs and accordingly has not made an operating profit. There can be no assurance that Arius will ever achieve significant revenues or profitable operations.

Third Party Liability

The sale and use of Arius' products may entail risk of third party liability. Arius may be subject to claims of personal injury and could become liable to end users of Arius' products for injuries resulting from the failure of a product to adequately detect a specified pathogen. Although Arius is in the process of obtaining commercial general liability insurance, there can be no assurance that such insurance will be available to Arius on commercially reasonable terms or that it will be sufficient to cover all claims. Arius could suffer financial loss due to defects in its products and such financial loss could have a materially adverse effect on Arius' operations.

Dependence on Single Product Line

Although Arius anticipates developing other products, its operations are currently restricted to the development of cancer-killing monoclonal antibodies for commercial use. In the event Arius is unable to market cancer-killing antibodies and related products for any reason, it would be materially adversely affected.

Public Acceptance

There is limited experience relating to the types of products intended to be developed by Arius. While Arius anticipates that its products and technology should be accepted by the public and should therefore be commercially successful, there can be no assurances that this will be the case.

Conflicts of Interest

Certain of the directors and officers of Arius also serve as directors and officers or shareholders of Skye, which provides services to Arius pursuant to the agreement described under *"Business of Arius - Agreement with Skye",* and consequently there exists a possibility for such officers or directors to be in a position of conflict. Any decision made by such director or officer involving Arius will be made in accordance with his or her duties and obligations to deal fairly and in good faith with Arius and such other company. In addition, such officer or director will be required to declare, and refrain from voting on, any matter in which such individual may have a conflict of interest.

Competition

The biopharmaceutical industry is very competitive. Arius is in competition with other companies that develop products to treat the same diseases as it does. Many of these companies have considerably more resources than Arius. It is therefore impossible to guarantee that the products developed by other companies will not cause Arius' products and technologies to be uncompetitive. The products being developed by Arius will compete with existing and new products being created by pharmaceutical, biopharmaceutical and biotechnology companies, as well as by universities and other research institutions. Many of these entities have significantly greater research and development capacities, as well as substantial marketing, financial, and managerial resources. There can be no assurance that developments by others will not render Arius' products or technologies obsolete or non-competitive or that Arius will be able to keep pace with technological developments. Many of Arius' competitors have developed, or are in the process of developing, technologies that may be the basis for competitive products. Some of these products may have an entirely different approach than products being developed by Arius and may be more effective and less costly. In addition, many of these competitors have significantly greater experience than Arius in undertaking pre-clinical and clinical trials and in obtaining FDA and other regulatory approvals. Accordingly, Arius' competitors may succeed in commercializing their products first. See "*Industry Overview - Market Analysis and Competition*".

Liquidity and Capital Requirements

Arius' capital requirements will depend on the following factors: (i) the continuous scientific developments leading to diagnostic/therapeutic discoveries; (ii) the potential changes in its development programs; (iii) its progress in the pre-clinical and clinical testing; (iv) the time and money invested in the submission and follow-up of its patent applications and the outcome of potential patent claims; and (v) the expenses incurred to obtain regulatory approval for its products. To obtain the necessary capital, Arius must rely on contractors, enter into research and development cooperation agreements and issue additional Common Shares to provide full or partial funding for its various programs. It is impossible to guarantee the availability of additional financial resources, or their obtainment upon acceptable conditions, if they are obtained at all. Should Arius fail to obtain the necessary capital, it will probably have to cease, its research and development expenses and its clinical and pre-clinical trials.

No Organized Market

There is no organized market on which to trade the Common Shares or Share Purchase Warrants, and there can be no assurance that an active market for the trading of such securities will develop or be maintained after the offering. The offering price of the Class B Units was determined by negotiation between the Company and the Agent.

DILUTION

The Common Shares to be issued in connection with the Offering will be subject to immediate dilution with respect to the amount to be allocated to each Common Share compared to the net tangible book value of the Company per share after giving effect to the issue of such Common Shares and the issue of Common Shares upon exercise of the Special Warrants. The following table sets forth the dilution per Common Share as at November 30, 1999 based on the audited balance sheet of the Company as at that date after deducting commissions and issue costs and assuming no exercise of the Compensation Warrants, the Class A Warrants or the Class B Warrants after giving effect to the issue of the Common Shares under the Offering (assuming the Offering is fully subscribed) and the issue of Common Shares upon exercise of the Special Warrants.

		Per Common Share
Offering price		$5.00
Net tangible book value before the Offering	$0.73	
Increase in net tangible book value attributable to the Offering	$0.96	
Net tangible book value after the Offering		$1.69
Dilution to purchasers		$3.31
Dilution as a percentage of the Offering price		66%

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts which have been entered into by the Company are the following:

1. the Class A Special Warrants Agency Agreement, the Class B Special Warrants Agency Agreement and the Unit Offering Agency Agreement referred to under *"Plan of Distribution"*;

2. the Transfer Agreement referred to under *"Interest of Management & Others in Material Transactions"*;

3. the Services Agreement between the Company and Skye referred to under *"Business of Arius - Agreement with Skye"*;

4. the Warrant Indentures referred to under *"Description of Share Purchase Warrants"*; and

5. the Escrow Agreement referred to under *"Escrowed Shares"*.

Copies of these agreements will be available for inspection at the registered office of the Company at 6354 Viscount Road, Mississauga, Ontario, L4V 1H3 during normal business hours during the course of distribution of securities under this prospectus and for a period of 30 days thereafter.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Company are KPMG LLP, chartered accountants, Toronto, Ontario.

The transfer agent and registrar for the Common Shares of the Company is Equity Transfer Services Inc., Toronto, Ontario.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment thereto. Securities legislation in certain of these provinces further provides a purchaser with remedies for rescission or, in some provinces, damages where the prospectus or any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages must be exercised by the purchaser within the time limit prescribed by securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of such purchaser's province for the particulars of these rights or consult with a legal advisor.

CONTRACTUAL RIGHT OF ACTION FOR RESCISSION

In the event that a holder of Special Warrants, who acquires Units upon the exercise of the Special Warrants as provided for in this prospectus, is, or becomes, entitled under applicable securities legislation to the remedy by rescission by reason of this prospectus, or any amendment thereto, containing a misrepresentation, such holder shall be entitled to rescission not only of the holder's exercise of its Special Warrants but also of the private placement transaction pursuant to which the Special Warrants were initially acquired, and shall be entitled in connection with such rescission to a full refund of all consideration paid to the Company on the acquisition of the Special Warrants. In the event such holder is a permitted assignee of the interest of the original Special Warrants subscriber, such permitted assignee shall be entitled to exercise the rights of rescission and refund granted hereunder as if such permitted assignee was the original subscriber. The foregoing is in addition to any other right or remedy available to a holder of Special Warrants under Section 130 of the *Securities Act* (Ontario) or corresponding provisions of other securities legislation or otherwise at law.

k p m g

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AUDITORS' REPORT

To the Board of Directors of Arius Research Inc.

We have audited the balance sheet of Arius Research Inc. as at November 30, 1999 and the statements of operations and deficit and cash flows for the period from August 11, 1999 (date of incorporation) to November 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 1999 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada

December 22, 1999, except
for notes 8(a) and (b) which
are as of January 14, 2000 and
note 8(c) which is as of March 7, 2000

ARIUS RESEARCH INC.

Balance Sheet

November 30, 1999

Assets

Current assets:	
Cash	$ 1,439,298
Refundable tax credits (note 3)	40,000
Prepaid expenses and other receivables	160,297
	1,639,595
Capital assets, net of $10,000 tax credits	24,895
Technology under development	1
	$ 1,664,491

Liabilities and Shareholders' Equity

Current liabilities:	
Accounts payable and accrued liabilities	$ 208,413
Shareholders' equity:	
Share capital (note 4):	
Common shares	400,001
Special Warrants	1,474,000
Class A share purchase warrants	2,000
Deficit	(419,923)
	1,456,078
Commitment and contingency (note 5)	
Subsequent events (note 8)	
	$ 1,664,491

See accompanying notes to financial statements.

On behalf of the Board:

(Signed) *"William T. Bodenhamer"* Director

(Signed) *"Dr. David Young"* Director

ARIUS RESEARCH INC.

Statement of Operations and Deficit

For the period from August 11, 1999 (date of incorporation) to November 30, 1999

Expenses:	
Research and development, net of $30,000 tax credits (note 3)	$ 395,595
General and administrative, net of $6,476 interest income	24,328
Loss for the period, being deficit, end of period	$ 419,923
Loss per share	$ (0.21)
Weighted average number of common shares outstanding	2,000,000

See accompanying notes to financial statements.

ARIUS RESEARCH INC.

Statement of Cash Flows

For the period August 11, 1999 (date of incorporation) to November 30, 1999

Cash provided by (used in):		
Operations:		
Loss for the period	$	(419,923)
Services received for common shares		400,000
		(19,923)
Change in non-cash operating working capital:		
Refundable tax credits		(40,000)
Prepaid expenses and other receivables		(160,297)
Accounts payable and accrued liabilities		208,413
		(11,807)
Financing activities:		
Issue of Special Warrants, net of issuance costs		1,474,000
Issue of Common share purchase warrants		2,000
		1,476,000
Investing activities:		
Acquisition of capital assets, net of $ 10,000 tax credits		(24,895)
Increase in cash, being cash, end of period	$	1,439,298
Supplementary cash flow information:		
Non-cash financing activities:		
Shares issued for technology	$	1
Shares issued for past services		400,000
Non-cash investing activities:		
Technology acquired for shares issued		1

See accompanying notes to financial statements.

ARIUS RESEARCH INC.

Notes to Financial Statements

Period from August 11, 1999 (date of incorporation) to November 30, 1999

1. The Company and Basis of Presentation:

Arius Research Inc. (the "Company"), incorporated on August 11, 1999, is a development stage research-based biomedical company whose primary goal is to develop a class of drugs through the use of monoclonal antibodies that will enable oncologists to treat specific tumors for individual cancer patients.

The continuation of the Company's research and development activities and the commercialization of its therapeutic products is dependent upon the Company's ability to successfully complete its research programs, protect its intellectual property and finance its cash requirements on an ongoing basis. It is not possible to predict the outcome of future research and development activities or the financing of these activities.

2. Significant accounting policies:

(a) Research and development:

Research costs are expensed as incurred. Development costs are expensed as incurred unless such costs meet the criteria for deferral and amortization under generally accepted accounting principles. To November 30, 1999, the Company has not deferred any development costs.

(b) Capital assets:

Capital assets, acquired on November 25, 1999, are recorded at cost less related investment tax credits and are depreciated using the declining balance method at the following annual rate:

Laboratory equipment	20%

2. Significant accounting policies (continued):

(c) Tax credits:

Tax credits earned, based on scientific research and development expenditures, are accounted for as a reduction of the related current period expenses or a reduction of the related capital assets when the Company has reasonable assurance that the tax credits will be utilized.

(d) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Refundable tax credits and income taxes:

The Company's current and capital expenditures are eligible as scientific research and experimental development ("SR&ED") expenditures. As a Canadian controlled private corporation, the Company can earn tax credits at a rate of 35% on the first $2 million of SR&ED expenditures each year (subject to limitations based on prior year's taxable income and total capital) and 20% thereafter. The Company should also be eligible for the Ontario Innovation Tax Credit (“OITC”) at the rate of 10% subject to similar limitations as the ITC’s earned at the 35% rate. A portion of the tax credits (both ITC’s and OITC’s) are refundable in cash to the Company, with the remainder available as an offset against future taxes payable.

At November 30, 1999, the Company has $40,000 of refundable tax credits, approximately $ 10,000 of which relate to capital expenditures. The amount of refundable tax credits ultimately received by the Company will be determined following the review by Revenue Canada and the Ontario Ministry of Finance of the technical and financial aspects of the tax credit claims.

3. Refundable tax credits and income taxes (continued):

In addition, the Company has an unclaimed SR&ED pool of $136,536 which can be carried forward indefinitely as a deduction against taxable income and a tax loss of $380,162 which can be applied to reduce taxable income in future years up to and including 2006. The potential benefits of these deductions and losses have not been recognized in these financial statements.

4. Share capital:

(a) At November 30, 1999, the Company's authorized and issued share capital consisted of:

Authorized:	
Unlimited preference shares, non-voting, issuable in series	
Unlimited common shares, voting	
Issued:	
2,000,000 common shares	$ 400,001

(i) On August 11, 1999, the Company issued one common share to Dr. David Young, the Company's founder, for $1.00.

(ii) On October 7, 1999, the Company issued 1,599,999 common shares to Dr. David Young as consideration to acquire all of the rights, title and interest in the cancer killing antibody technology being developed by him. These shares have a legal stated capital of $1.00 per share or $1,599,999. As this transaction occurred between non-arm's length parties, these common shares have been recorded in the financial statements at Dr. Young's carrying value of the technology acquired, being a nominal amount of $1.00, representing the stated value of these shares for accounting purposes.

(iii) On October 7, 1999, the Company issued 400,000 common shares at a stated value of $1 per share to Skye Pharmatech Inc. (“Skye”) in consideration for research services and reagents purchased from Skye. This non-monetary transaction has been recorded in the financial statements at $400,000, representing the estimated fair value.

4. Share capital (continued):

(b) Class A Special Warrants:

On October 21, 1999 and November 10, 1999, the Company issued 700,000 and 150,000 Class A Special Warrants, respectively, at a price of $2.00 per Class A Special Warrant for proceeds of $1,474,000, net of issuance costs of $226,000. Each Class A Special Warrant entitles the holder thereof to receive, upon exercise and without additional payment, one common share and one Class A share warrant of the Company (note 4(c)).

Subject to adjustment, the Class A Special Warrants are exercisable at any time and will be automatically exercised following the issuance of a receipt for the final prospectus qualifying the common shares and Class A share warrants to be issued upon exercise of the Special Warrants.

(c) Class A Share warrants:

At November 30, 1999, there are 2,000,000 Class A share warrants, each having a stated value of $.001, issued and outstanding. Each Class A share warrant entitles the holder thereof to purchase one common share at a price of $4.00, subject to adjustment in certain events, at any time on or before October 31, 2002. In the event that the common shares are quoted or publicly listed on the Canadian Dealing Network ("CDN") or on Canadian stock exchange, the Class A share warrants may be redeemed by the Company for $0.01 per Class A share warrant upon 30 days written notice following any date upon which the weighted average market price of the common shares over the period of 20 consecutive business days immediately prior to such date has equalled or exceeded $6.00, subject to adjustment in certain events.

5. Commitment and contingency:

(a) The Company has entered into an agreement with Skye expiring in October 2000 for services to be received, including access to Skye's research facilities, technical support and administrative assistance. As at November 30, 1999, the minimum annual service fees approximate $33,000.

(b) Uncertainty due to the Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

6. Related party transaction:

In addition to the related party transactions described elsewhere in these financial statements, the Company paid management fees of $12,500 to a company controlled by Dr. Young.

7. Fair value of financial instruments:

The reported values of financial instruments representing cash, other receivables and accounts payable and accrued liabilities approximate their fair values due to the near-term maturity of these instruments.

8. Subsequent events:

(a) Stock-based compensation plan:

On December 8, 1999, the Company established a stock option plan providing for the issuance of options to acquire up to 800,000 common shares of the Company to eligible persons, including directors, officers, employees and consultants of the Company. The board of directors of the Company has issued options under the stock-option plan in respect of a total of 225,000 common shares to the directors and officers of the Company. All of the options were granted for a term of three years and have an exercise price of $2.00 per share.

(b) Long-term investment:

In December 1999, the Company acquired for $20,000 a 25% equity interest in Diversified Medical Innovations Inc., a start-up pharmaceutical and medical devices company, incorporated in November, 1999, that is engaged in developing the non-general anesthetic anesthesia market.

(c) Initial public offering:

Pursuant to a final prospectus dated March 7, 2000, the Company is offering 1,000,000 Class B Units, issuable at a price of $5.00 per Unit held for offering costs estimated at $250,000 and qualifying for distribution (i) 850,000 Class A Units, issuable, without additional payment, on exercise of the Class A Special Warrants (note 4(b)) and (ii) 200,000 Class B Units issuable, without additional payment, on exercise of 200,000 Class B Special Warrants issued on March 7, 2000 at a price of $5.00 per Class B Special Warrant. The proceeds from the issuance of the Class B Special Warrants is $940,000 net of $60,000 issuance costs. Each Class A Unit consists of one common share and one Class A share warrant whereby each Class A share warrant is subject to the terms and conditions described in note 4(c). Each Class B Unit consists of one common share and one Class B share warrant whereby each Class B share warrant will entitle the holder thereof to purchase one common share at a price of $7.50, subject to adjustment, at any time on or before March 31, 2003. In the event that the common shares are quoted or publicly listed on CDN or a Canadian stock exchange, the Class B warrants may be redeemed by the Company for $0.01 per warrant upon 30 days written notice following any date upon which the weighted average market price of the common shares over the period of 20 consecutive business days immediately prior to such date has equalled or exceeded $12.00, subject to adjustments in certain events.

8. Subsequent events (continued):

The Company has also committed to grant to the underwriter non-assignable options to purchase (i) 85,000 Class A Units exercisable at $2.00 per Class A Unit on or before October 31, 2001 and (ii) 120,000 Class B Units exercisable at $5.00 per Unit on or before March 31, 2002.

The Company has also agreed to pay the underwriter (i) an amount equal to 8% of the gross proceeds from the private placement of the Class A Special Warrants and 6% of the gross proceeds received from the sale of the Class B Units under the offering and from the exercise of the Class B Special Warrants and (ii) an amount equal to 4% of the gross proceeds received by the Company from the exercise of the Class A warrants and Class B warrants as they are exercised.

CERTIFICATE OF THE COMPANY

Dated: March 7, 2000

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

(Signed) *"David Young"*

Dr. David Young,
President & Chief Scientific Officer
(as Chief Executive Officer)

(Signed) *"Eugene Bortoluzzi"*

Eugene Bortoluzzi,
Chief Financial Officer

On behalf of the Board of Directors

(Signed) *"William T. Bodenhamer"*

William T. Bodenhamer,
Director

(Signed) *"Dan Andersen"*

Dan Andersen,
Director

CERTIFICATE OF PROMOTER

Dated: March 7, 2000

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

(Signed) *"David Young"*

Dr. David Young,
President & Chief Scientific Officer

CERTIFICATE OF AGENT

Dated: March 7, 2000

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part XV of the *Securities Act* (Ontario) and the regulations thereunder.

THOMSON KERNAGHAN & CO. LTD.

By: (Signed) *"Michael Levy"*
Michael Levy