A copy of this preliminary prospectus has been filed with the securities regulatory authorities in Ontario, Alberta and British Columbia but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The securities offered hereby have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the **"U.S. Securities Act"**) or any state securities laws and may not be offered, sold or delivered within the United States of America, its territories, its possessions and other areas subject to its jurisdiction, except in certain circumstances exempt from the requirements of the U.S. Securities Act.*

Preliminary Prospectus

New Issue September 29, 2003

ARIUS RESEARCH INC.

Minimum: $• (• Units)
Maximum: $• (• Units)

This Offering (the **"Offering"**) relates to the distribution of a minimum of • and a maximum of • Units (the **"Units"**) issuable at a price of $• per Unit. Each Unit consists of one Common Share (a **"Common Share"**) and • Share Purchase Warrant (a **"Warrant"**) of ARIUS Research Inc. (the **"Company"** or **"ARIUS"**). The offering price of the Units was determined by negotiations among the Company, Canaccord Capital Corporation and Dlouhy Merchant Group Inc. (collectively, the **"Agents"**). The Common Shares of the Company are listed on the TSX Venture Exchange (the **"TSX Venture"**) under the symbol "YAR". On •, 2003, the closing price of the Common Shares on the TSX Venture was $•.

Each whole Warrant will entitle the holder thereof to purchase one Common Share at a price of $•, subject to adjustment in certain events, at any time on or before • 2005. The 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 equaled or exceeded $• per share, subject to adjustment in certain events.

The Agents conditionally offer the Units for sale in the Provinces of Ontario, Alberta and British Columbia on a "best efforts" basis in accordance with the conditions contained in an agency agreement dated •, 2003 (the **"Agency Agreement"**) between the Company and the Agents.

Minimum gross proceeds of $• must be raised by the issuance of • Units (the **"Minimum Offering"**) by •, 2003 or such other time as may be authorized by the executive director of each of the Ontario Securities Commission, the Alberta Securities Commission and the British Columbia Securities Commission (collectively, the **"Commissions"**) and as agreed to by the Agents (the **"Closing Date"**). The Agents will hold subscription funds in trust until the Minimum Offering is completed. If the Minimum Offering is not subscribed by the Closing Date, the Offering will terminate and all funds received and held by the Agents in trust will be returned to subscribers without interest or deduction, unless consent is given by the subscribers and the securities regulatory authorities to an extension of the Closing Date. See *"Plan of Distribution"*.

	Price to Public	Agents' Fee[(1)]	Net Proceeds to Company[(2)]
Per Unit	$•	$•	$•
Minimum Offering	$•	$•	$•
Maximum Offering	$•	$•	$•
Total	$•	$•	$•[(3)]

(1) As additional consideration for the services rendered by the Agents, ARIUS has agreed to grant to the Agents non-assignable options (the **"Compensation Options"**) to purchase such number of Units as is equal to 10% of the number of Units sold in the Offering at an exercise price of $• per Unit at any time on or before • 2005. This prospectus also qualifies the distribution of the Compensation Options. See *"Plan of Distribution"*.

(2) After deducting the Agents' fees but before deducting the expenses of the Offering estimated at $•.

(3) The Company has granted the Agents an option exercisable prior to the third business day prior to the Closing to increase the number of Units offered hereby by 10% on the same terms set forth above (the **"Over-Allotment Option"**). This prospectus also qualifies any additional Units issued upon the exercise of such Over-Allotment Option. If the Over-Allotment Option is exercised in full, the maximum offering will be $•, the Agents' fee will be $• and the net proceeds to the Company will be $•.

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. 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. See *"Risk Factors"*. The Units offered hereby will not be precluded as investments under certain statutes as set out under *"Canadian Federal Income Tax Considerations – Eligibility for Investment"*.

Subscriptions for the 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. 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 Agents by WeirFoulds LLP, Toronto, Ontario.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are **"forward-looking statements"** which are prospective. These statements generally can be identified by the use of forward-looking words, such as "may", "will", "expect", "intend", "plan", "estimate", "anticipate", "believe" or "continue", or the negative thereof, or similar variations. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements are subject to risks, uncertainties and other factors, including the risks described in *"Risk Factors"*, which could cause actual results to differ materially from future results expressed or implied by such forward looking statements.

These factors should be considered carefully and prospective investors should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this prospectus are based upon what management believes to be reasonable assumptions, the Company cannot assure prospective purchasers that actual results will be consistent with these forward-looking statements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. The Company assumes no obligation to update or revise any such forward-looking statements to reflect new events or circumstances.

SUMMARY

The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus.

THE COMPANY

ARIUS Research Inc. is a medical biotechnology company committed to the rapid discovery and development of functional anti-cancer antibodies. To date, through its proprietary antibody generation technology, ARIUS has established a library of over 190 functional antibodies. Current research is focused on breast, prostate, ovarian, colorectal and lung cancers and melanoma. Working independently and through partnerships, ARIUS is expanding its research into related areas, including other gastro-intestinal cancers.

On completion of the Offering, ARIUS intends to commercialize the products developed from its research and development activities by entering into strategic alliances with large pharmaceutical or biotechnology companies to develop, market, manufacture and distribute such products. ARIUS intends to commence Phase I Clinical Trials within the next 12-18 months with respect to at least one of its antibodies.

THE OFFERING

Issuer:	ARIUS Research Inc.
Offering:	A maximum of ● Units ($ ●) and a minimum of ● Units ($●), each Unit consisting of one Common Share and • Warrant.
Price:	$• per Unit.
Over Allotment Option	The Company has granted the Agents an option exercisable prior to the third business day prior to the Closing to increase the number of Units offered hereby by 10% on the same terms set forth above (the **"Over-Allotment Option"**).
Minimum Offering:	The Offering is subject to a minimum of • Units for $• being received by •, 2003 or such other time as may be authorized by the executive director of each of the Commissions and as agreed to by the Agents. See *"Plan of Distribution"*.
Share Purchase Warrants:	Each Warrant will entitle the holder thereof to purchase one Common Share at a price of $●, subject to adjustment in certain events, at any time on or before ●, 2005. The 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 equaled or exceeded $● per share, subject to adjustment in certain events.
Securities Issued:	A total of 4,891,008 Common Shares are issued and outstanding as at the date hereof.
Use of Proceeds:	Assuming the Offering is fully subscribed, the net proceeds from the Offering, after deducting fees payable to the Agents and the estimated expenses associated with the Offering, are estimated to be $● which will be used to fund the operations of ARIUS including, pre-clinical development, Phase I clinical trial initiation, antibody manufacturing and other research and development activities. See *"Use of Proceeds"*.
Risk Factors:	Investment in the securities offered hereunder is speculative due to the nature of ARIUS' business and its present stage of development. ARIUS is a pre-clinical drug development company with limited 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. 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 S. Young, Chairman, President and Chief Scientific Officer of the Company, holds 1,500,001 Common Shares representing 30.7% of the Common Shares prior to giving effect to the issue of Common Shares under the Offering.

SELECTED FINANCIAL INFORMATION

The following selected financial information has been derived from the financial statements of the Company contained in this prospectus as well as the financial statements of the Company filed and available on SEDAR and should be read in conjunction with such statements and notes thereto:

Income Statement Data	**Periods of Six Months Ended May 31 (Unaudited)**		**Fiscal Years Ended November 30 (Audited)**		
	2003	**2002**	**2002**	**2001**	**2000**
Revenue and Interest Income	$90,700	$41,798	$59,240	$167,653	$250,167
Loss for the period	(1,134,827)	(1,086,999)	(2,536,020)	(2,615,705)	(1,190,808)
Loss per share	(0.23)	(0.22)	(0.52)	(0.63)	(0.34)
Average number of shares outstanding	4,891,008	4,891,008	4,891,008	4,175,055	3,495,491
Balance Sheet Data	**As at May 31 (Unaudited)**		**As at November 30 (Audited)**		
	2003	**2002**	**2002**	**2001**	**2000**
Cash and equivalents	$669,636	$2,781,545	$1,421,182	$4,059,059	$5,345,649
Current assets	1,733,590	4,005,186	2,810,098	5,361,963	5,752,237
Total assets	2,295,319	4,879,986	3,635,924	6,296,866	5,998,440
Current liabilities	161,340	158,867	367,118	484,725	210,621
Long term debt	—	3,293	—	7,315	—
Shareholders' equity	2,133,979	4,717,827	3,268,806	5,804,826	5,787,819

See *"Management Discussion and Analysis"* and *"Financial Statements"*.

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 or other areas.

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

Chimaeric Antibody is a composite antibody with portions from each of two species, most commonly incorporating human constant regions and mouse antigen-binding variable regions.

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.

Epitope is an antigenic determinant.

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

HPFB means the Health Products and Food Branch of Health Canada, an agency of the government of Canada.

Humanized antibody is a composite antibody that retains small portions of the original non-human antibody, typically the complementary determining regions (CDRs) critical for antigen binding, even though large portions of the original antibody have been replaced with analogous human sequences.

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

Interleukin is a generic name for a hormone-like substance that stimulates the growth of lymphocytes (white blood cells) and activates the immune system.

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.

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 HPFB.

Oncologist means a physician who treats cancer patients.

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 inventor to file for an international patent application in each of the member countries.

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 (PLA) or **Biological License Application (PBLA)** 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.

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

SCID means severe combined immune deficiency.

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 on tumour cells.

THE COMPANY

General

ARIUS Research Inc. (**"ARIUS"** or the **"Company"**) is a medical biotechnology company that was incorporated on August 11, 1999 pursuant to the *Business Corporations Act (Ontario)* by certificate and articles of incorporation.

ARIUS is committed to the rapid discovery and development of functional anti-cancer monoclonal antibodies (also known as **"MAbs"**). To date, through its proprietary antibody generation technology, ARIUS has established a library of over 190 functional antibodies. Current research is focused on breast, prostate, ovarian, colorectal and lung cancers and melanoma. Working independently and through partnerships, ARIUS intends to expand its research into related areas, including other gastro-intestinal cancers.

The Company's head and registered office is located at 55 York Street, Suite 1600, Toronto, Ontario Canada M5J 1R7.

History of the Company

ARIUS was incorporated on August 11, 1999. In October 1999, the founder, Chairman, President and Chief Scientific Officer of the Company, Dr. David S. Young, transferred to the Company his rights in the antibody generation technology and received from the Company 1.6 million Common Shares.

During late 1999 and early 2000, ARIUS raised $2.7 million in a series of private placements. In March, 2000, ARIUS completed an initial public offering of $5.0 million. In October 2001, the Company raised a further $2.6 million by way of a rights offering.

In January 2001, ARIUS was granted a patent from the United States Patent and Trademark Office for a method of producing antibodies that can be used in custom designed individualized therapeutics for treating cancer. The patent protects the Company's antibody generation and screening processes that form the core of its technology.

In February 2001, ARIUS moved to new research facilities in downtown Toronto, proximate to the medical research infrastructure surrounding the University of Toronto and its teaching hospitals, the University Health Network and several additional research and clinical care organizations. In June 2001, ARIUS entered into an agreement with the University Health Network for conducting animal studies.

In October 2001, ARIUS entered into a technology transfer agreement with *Centro de Immunologia Molecular* (**"CIMAB"**) of Havana, Cuba to license the rights to CIMAB's technology for humanizing ARIUS' mouse monoclonal antibodies.

Positive results for one of the Company's lead antibodies, ARvitamab®, were presented in November 2001 at the annual meeting of the Society for Biological Therapy. The animal trial results showed anti-tumour activity of ARvitamab, alone and in combination with Cisplatin, a frequently used chemotherapy agent.

In July 2002, the Company presented positive animal results at the annual meeting of the International Union Against Cancer in Oslo, Norway for two novel anti-cancer MAbs, ARH460-16-2 and ARH460-22-1. The antibodies, which were developed by ARIUS and selected from its functional MAb library, inhibited the development of implanted human breast cancer tumours in mice. In the same study, the control animals treated with a carrier or with a non-effective antibody all developed sizeable tumours. Further results demonstrating prevention were presented at the Society for Biological Therapy meeting in November 2002. These studies also showed a beneficial effect on long-term survival.

ARIUS embarked on a commercial partnering program beginning with an agreement signed in July 2002 with Oxford BioMedica PLC (**"OB"**) of Oxford, U.K. to collaborate on the development of targets for 50 anti-cancer antibodies from the ARIUS functional MAb library. In October 2002, ARIUS announced a collaboration with Xerion Pharmaceuticals AG (**"Xerion"**) of Martinsried, Germany involving four antibodies from the ARIUS functional antibody library.

Recent Developments

In October 2002, ARIUS entered into an option agreement with Protein Design Labs, Inc. (**"PDL"**) of Fremont, California pursuant to which PDL was granted the option to license worldwide development and distribution rights to ARH460-22-1 and ARH460-16-2. Following the expiration of the option period, ARIUS and PDL signed a letter of intent in June 2003, setting out the terms for an expanded three-year collaboration.

In January 2003, ARIUS entered into a collaboration with the GI Research Unit at St. Michael's Hospital in Toronto to study antibodies and targets derived from tumour tissues donated by patients who had undergone surgery for colon cancer.

In February 2003, ARIUS disclosed positive pre-clinical results for a series of new anti-cancer antibodies at the Keystone Symposium on Antibody-Based Therapeutics for Cancer in Banff. Two of these antibodies, AR7BD-33-11A and AR1A245.6, prevented the formation of breast tumours in animals during treatment and gave a survival benefit when treatment was discontinued.

In April 2003, the Company published successful pre-clinical study results for two of its novel anti-cancer antibodies in the proceedings of the 94th annual meeting of the American Association for Cancer Research (**"AACR"**). AR7BD-33-11A and AR1A245.6 met a number of significant endpoints including preventing development of breast and prostate cancers in tumour prevention models and halting tumour growth in a different, established tumour model. These antibodies also significantly improved survival in animal models of human cancer.

In May 2003, ARIUS entered into a collaboration with the Ottawa Regional Cancer Centre (**"ORCC"**) to study a group of cancer-killing antibodies in specialized models of human ovarian cancer. Under the collaboration, ARIUS will match its anti-cancer antibodies to different types of ovarian cancer and ORCC will then test the antibodies in its proprietary models for drug efficacy. Those that are effective will be targeted for development as new drugs for the treatment of women with ovarian cancer.

In August 2003, ARIUS revealed that CD44, an important and prevalent cancer antigen, is the target for ARH460-16-2, one of its lead novel anti-cancer antibodies. New efficacy data in breast cancer and research findings on the target were presented at the 2nd International Congress on Targeted Therapies in Washington D.C. This target, now shown to be CD44, is believed to play a critical role in the behavior of cancer cells.

In September 2003, ARIUS and PDL entered into an agreement for a three-year collaboration to discover, develop and commercialize antibodies for cancer treatment. See *"Business of the Company – Partnerships and Collaborations – Protein Design Labs".*

With its expanding pipeline of functional MAbs, ARIUS expects to accelerate its deal making and realize synergies by combining its antibody discovery technology with complementary technologies in target characterization, gene discovery, proteomics and immunotherapy.

BUSINESS OF THE COMPANY

Overview

ARIUS is a medical biotechnology company committed to the rapid discovery and development of functional anti-cancer antibodies. To date, through its proprietary antibody generation technology, ARIUS has established a library of over 190 functional antibodies. Current research is focused on breast, prostate, ovarian, colorectal and lung cancers and melanoma. Working independently and through partnerships, ARIUS intends to expand its research into related areas, including other gastro-intestinal cancers.

Science and Technology

Cancer. Cancer is a term used to describe a group of more than 100 diseases and is characterized by the abnormal growth and death of the body's cells. Cell division and cell death are normally tightly regulated, but an accumulation of defects, either through genetic predisposition, external causes (such as chemicals, radiation) or internal causes (such as immune status, hormones) may lead to uncontrolled cell proliferation or to a decrease in programmed cell death (such as apoptosis). The result of the imbalance between cell growth and cell death leads to formation of benign or malignant tumours. Benign tumours remain within their tissues of origin but malignant tumours, or cancers, can invade adjacent tissues and spread distantly (i.e. metastasize). In general, cancer outcomes are determined by the stage of the disease at the time of diagnosis and the treatment received, with more advanced cancers being more deadly. Malignant tumours invade and compress adjacent tissues and organs and, if not successfully treated, may produce illness and death.

Despite enormous gains made over the last two decades, cancer remains one of the most daunting challenges facing medical science. Cancer is the second leading cause of death among adults and there is about a 25% lifetime

chance of dying from cancer. An Ipsos-Reid survey commissioned by ARIUS in 2002 showed that almost nine in 10 Canadians (87%) have a friend or family member who has had cancer. Today's treatments are disappointing but there is hope for the future. Fewer than one-third of those interviewed (31%) reported that the treatment their friend or family member received was effective, 68% agreed that, within the next 10 years, cancer would become a disease one could treat and live with and 70% believe there will actually be a cure for cancer within their lifetime. 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 treatment options. The regimented approach to cancer therapy has produced improvements in global survival and morbidity rates, however, these improved statistics do not necessarily offer comfort to the individual since at least 30% of patients will fail first line therapy. This usually leads to further rounds of treatment and the increased probability of treatment failure and metastases.

Cancer Treatment. Current conventional treatment can include surgery, radiation therapy and chemotherapy. The choice of therapy for a cancer patient depends on the stage of the natural history of the cancer at the time of detection. Surgery and radiation therapy are generally used to treat a localized disease but chemotherapy is used when there is a concern about metastasis. Frequently, a combination of these and other cancer treatments are used.

Cancer surgery entails the removal of the cancer along with a margin of normal tissue. Surgical resection can be very effective for treating tumours that have not spread and, in some cases, may be appropriate for cancers that have limited metastasis. One of the current trends is to combine surgical resection with radiation therapy and chemotherapy.

Another approach to controlling localized and early-stage tumours is with radiation therapy. Radiation therapy is the use of ionizing agents, such as X-rays and Gamma rays, to produce tumour cell death. In some cases, radiotherapy has emerged as an alternative option for cancers, such as those that originate in the cervix, head and neck as well as for some lymphomas. Radiation therapy is also used to palliate cancers and can be more effective when combined with chemotherapy.

One of the key advances in treating metastatic cancers is the development of chemotherapy in the 1950s. Most chemotherapy agents are cytotoxic chemicals that interfere with cell division via their effect on the synthesis or function of nucleic acids. These drugs target functions that are vital to both normal and cancer cells and produce side effects that limit the dose of each agent. The use of combination chemotherapy permits decreasing the amount of each drug in the cocktail to limit the side effects while maintaining therapeutic effectiveness and lowering the likelihood of drug resistant variants from arising from the cancer.

Existing therapies, whether used alone or in combination, are effective in certain circumstances, but all are subject to limitations. Radiotherapy and chemotherapy, which are directed towards fast-growing cancer cells, cause unwanted side effects because treatment invariably also kills normal cells. Hormone suppression 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. These therapies share in common a further feature: blindness to the unique biochemical markers 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. ARIUS believes that the future of cancer treatment ultimately lies in the customization of treatment for the individual through the use of monoclonal antibodies.

Despite improvements in survival due to advances in cancer therapy, the American Cancer Society estimates that there will be 1,334,100 new cases and 556,500 deaths from cancer in the United States in 2003. The Canadian Cancer Society estimates that there will be 139,900 new cases of cancer and 67,400 deaths due to cancer in 2003. Some cancers, including acute lymphatic leukemia, Hodgkin's disease, Burkitt's lymphoma, testicular cancer and osteogenic sarcoma are often curable, while other forms of cancer, such as brain, liver, cervix, pancreatic, renal, lung, stomach and colorectal cancers have been resistant to treatment and are the focus of continuing research.

ARIUS targets those cancer indications with the largest markets (breast, lung, prostate, colorectal). It has also selected niche cancers, such as pancreas and melanoma, for which there are few effective marketed therapies but which offer the potential for dramatic effect.

Cancer Type	Annual New Cases		Annual Deaths		5-Year Survival Rate (%)
	U.S.	Canada	U.S.	Canada	
Prostate	189,000	18,200	30,200	4,300	96
Colorectal	148,300	17,600	56,600	3,500	61
Lung	169,400	20,600	154,900	18,400	15
Breast	203,500	20,700	39,600	5,400	86
Pancreas	30,300	3,200	29,700	3,200	4
Melanoma	53,600	3,900	7,400	840	89

Sources: *American Cancer Society Facts and Figures 2002*
Canadian Cancer Society Cancer Statistics 2002

Monoclonal Antibodies (MAbs)

Antibodies are natural proteins produced by a type of immune cell – the B cell – that serve as an important defense mechanism against disease. The immune system can produce many millions of individual B cells, each of which has a unique antibody expressed on its surface to act as a receptor for its target or antigen. When a B cell encounters its antigen it will proliferate and secrete antibodies. The antibodies derived from an individual B cell are called monoclonal antibodies.

Each antibody has a unique molecular structure that directs it to a specific antigen. This unique structure is determined by the interaction of six sites, known as complementary determining regions (**"CDRs"**), on two protein chains that converge to grab the antigen much like two hands with three fingers each. Although each antibody has a constant region that determines the class of the antibody, there is a variable region where there is great dissimilarity among the amino acids and which is especially pronounced in the CDR. It is this variability that confers the unique identity and property of an antibody. Each antibody has between two to ten identical antigen binding regions.

The precise specificity of an antibody for its antigen means that antibodies make attractive drug candidates. However in order for antibodies to act as drugs, their molecules must be structurally uniform. This is the reason for the development of monoclonal antibodies. Monoclonal antibody drugs are currently being marketed for a variety of indications. They include OKT3, Zenapax and Simulect (transplant rejection); ReoPro (cardiovascular disease); Campath and Mylotarg (leukemia); Zevalin and Rituxan (Non-Hodgkin's lymphoma); Synagis (respiratory syncytial virus); Remicade (rheumatoid arthritis); and Herceptin (metastatic breast cancer). In recent months, Humira (rheumatoid arthritis), Xolair (asthma), Bexxar (Rituxan-refractory Non-Hodgkin's lymphoma) have all been approved for marketing.

The development of monoclonal antibodies 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 but not necessarily to kill cancer cells by themselves. It was thought that the antibody, carrying a toxic compound, such as a radioactive substance, would hone in on the cancer cell by recognizing a tumour-associated antigen on its surface, kill the cells and thereby produce a cure. However, the great diversity of cancer 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.

Anti-cancer antibodies are generally developed against antigens that have an acknowledged role in cancer. Traditionally, a link is made to some molecule or a physiological state and a variety of approaches are taken to determine if the molecule or physiological state is responsible for the progression of the cancer. Validation of that biochemical target is carried out by the manipulation of the molecule or change of the physiological state in cells to slowdown or stop cancer progress. Both this traditional approach and newer genomic approaches, where gene function can be linked to cancer, can potentially yield many cancer targets as a starting point for antibody development.

Mouse monoclonal antibodies can be made using hybridoma technology according to fundamental principles laid down by Nobel laureates George Kohler and Cesar Milstein. To date, most antibodies directed against cancer cells have been produced using these methods. B cells taken from the body will normally die in tissue culture. The fusion of B cells with perpetually growing cells produces a hybrid cell or hybridoma. A hybridoma is immortal and can be kept in long-term culture to serve as antibody factories. Monoclonal antibodies are produced by the selection of a hybridoma expressing an

antibody of interest and the amplification of that cell to produce a homogeneous population of identical cells – clones – that secrete antibodies identical in their structure and functional characteristics.

The selection of clones that produce antibodies that recognize a target of interest is dependent on screening assays. Most assays for antibodies rely on the strength of interaction for the antigen. The monoclonal antibodies that meet the screening criteria become lead candidates that undergo more extensive testing.

Antibodies directed against cancer antigens have been used both therapeutically and diagnostically. Anti-cancer antibodies can be used as naked antibodies or used as a targeting agent that delivers a payload to the site of the cancer. These antibody conjugates can either be radioactive, cytotoxic, or serve as an intermediary for further delivery of a drug to the body. There are currently six approved antibodies for the treatment of cancer in the United States: Herceptin, Campath, Rituxan, Zevlin, Mylotarg and Bexxar. In addition, Edrecolomab has been approved in Germany for the adjuvant treatment of colorectal cancer. Recently, ImClone Systems Inc. submitted a Biologies License Application to the U.S. Food and Drug Administration for the approval of Erbitux in combination with chemotherapy for the treatment of metastatic colorectal cancer.

ARIUS' Approach to Anti-Cancer Antibody Development

Functional Antibodies. Functional antibodies are MAbs that, by themselves, trigger death or inhibit proliferation of cancer cells, but not healthy cells, by targeting antigens carried on the outside of a cancer cell membrane. These cell surface antigens are decorated with sugar chains in distinctive arrangements that can be used as targets for therapeutic monoclonal antibodies. Antigens can act as biochemical signatures or markers that distinguish a cancer cell from a normal cell, and one person's cancer from another's.

The selection of antibodies of interest at ARIUS is based on the ability of the antibody to selectively produce cancer cell death when compared to the normal version of the cancer cell. Historically selection of MAbs in biomedical research has been driven more by binding strength than by their ability to trigger death in cancer cells. Discounting binding and testing directly for cancer killing accomplishes faster, less expensive screening for drug activity. The core of ARIUS' technology platform is its patented processes and proprietary high-throughput functional screens, which enable the Company to rapidly identify and select MAbs that show superior cancer killing ability. These MAbs, earmarked as potential drug candidates, are reserved for ARIUS' functional monoclonal antibody library.

Developmental Pathway. The Company's antibody development pathway is designed to bring an antibody from generation to completion of Phase I/II clinical trials more efficiently than other antibody development companies. These efficiencies will permit ARIUS to enter into multiple commercial partnering agreements for MAbs in its pipeline prior to clinical trials in order to achieve additional research synergies and short-term revenues to fund the Company's lead projects.

The ARIUS approach to antibody development has the following advantages:

- the process can produce multiple antibody drug candidates for any solid cancer type;
- the antibodies are functional in and of themselves and are drug candidates at the outset;
- development is more flexible and less expensive because the antibodies are derived from patients' cancer tumour and do not rely on isolated target antigens that may have to be in-licensed;
- the antibodies can be used to discover novel cancer antigens, since they were not produced against pre-defined targets.

MAb Library. ARIUS has built a library of over 190 functional antibodies, plus attendant protocols and a database. This library is a critical corporate asset because it represents a pool of MAbs that meet efficacy criteria and warrant further development. The antibodies in the library have merited inclusion by demonstrating cancer-killing in screens for key indications and are available to license out or develop in-house to clinical trials and beyond. Since the beginning of the current fiscal year, ARIUS has expanded the library by 70 MAbs and intends to add 100 more each year. ARIUS regards the MAbs in its library as valuable assets with which it may pursue commercial partnerships.

Personalized Therapy. Personalized therapy refers to screening patients and matching their treatment to the markers expressed by their body in order to increase the effectiveness of a therapy. The long-term goal of ARIUS is to use functional antibodies to treat patients by matching antibodies to the antigen profile expressed by that patient. If there were multiple antibodies available to address a significant portion of each cancer variety, this highly specific approach to

cancer therapy, would be a form of personalized therapy. In this paradigm of targeted cancer therapy, patients would not necessarily receive the same treatment as peers with the same disease stage and might instead be given an individualized panel of antibodies chosen specifically for their antigen profile. Targeting reduces the likelihood of failure in both the drug development clinical research phase and post-marketing. Additionally, administering a panel drawn from a subset of anti-cancer MAbs limits the potential cost of personalized therapy. Personalized therapy promises to improve upon the effectiveness of targeted therapy by further reducing the risk of treatment failure and enhancing therapeutic precision.

Lead Candidates. To date, ARIUS has produced over 190 functional anti-cancer antibodies that merit inclusion in its library. Selected antibodies from the library are drawn for further study. There are currently 72 antibodies under active development. Of these, 50 are the subject of a collaboration with OB and four are the subject of a collaboration with Xerion. The remaining 18 are under in-house development and are undergoing studies in animal models, including models of colon, ovarian, breast and prostate cancers.

Six of the antibodies under in house development have shown positive results in multiple studies in animal models of cancer. Two of the six antibodies, ARH460-16-2 and AR7BD-33-11A, are in later stages and are planned for clinical development in the next 12-18 months either by ARIUS alone or in a co-development partnership. The remainder are in continuing pre-clinical development and are eligible for partnering or out-licensing. These six lead candidates are described below:

Antibody	Indications	Stage
ARH460-16-2	Breast cancer	Phase I (Scheduled for 2004)
AR7BD-33-11A	Breast, prostate cancers	Phase I (Scheduled for 2004)
ARH460-22-1	Breast cancer	Pre-clinical
AR1A245.6	Breast, prostate cancers	Pre-clinical
AR11BD2E-11-2	Breast, ovarian cancers	Pre-clinical
ARH460-23	Lung cancer	Pre-clinical

ARH460-16-2. ARH460-16-2 has been studied in multiple animal models of human breast cancer. Results for ARH460-16-2 were reported at the 2002 AACR, International Union Against Cancer and Society for Biological Therapeutics meetings. Preventative studies showed almost complete suppression of tumour development in a human breast cancer xenograft model while studies in established tumours found significant tumour growth delay. ARH460-16-2 conferred a significant survival benefit compared to controls in both types of studies and in one study of established tumours, the ARH460-16-2 mice survived longer than a group treated with cisplatin chemotherapy. The antibody also has cytotoxic activity *in vitro* against human breast cancer and melanoma cell lines.

ARH460-16-2 was first studied in a human breast cancer model where MDA MB-231 cells were implanted subcutaneously into the scruff of the neck of SCID mice. MDA-MB-231 has been evaluated by the Development Therapeutics Program, National Cancer Institute (USA) and determined to be an appropriate model in immunodeficient mice because of its high engraftment rate and its sensitivity *in vivo* to known clinically useful agents. It is an estrogen receptor negative adenocarcinoma of the breast originally from a 51 year old patient.[1]

The animals were treated with the ARH460-16-2 antibody (20mg/kg), control antibody (20mg/kg) or antibody dilution buffer on a weekly basis starting on day –1. There were 10 mice per group. The last treatment was done on day 49. For the duration of treatment, there was no tumour growth in the H460-16-2 treated animals. Animals in both control groups developed measurable tumours. Significant differences in tumour volume in the treated and control groups persisted out to at least 25 days past the end of treatment. At the end of the study, 40% of antibody treated animals still did not have measurable tumours. These findings have been repeated and confirmed in both blinded and dose ranging studies.

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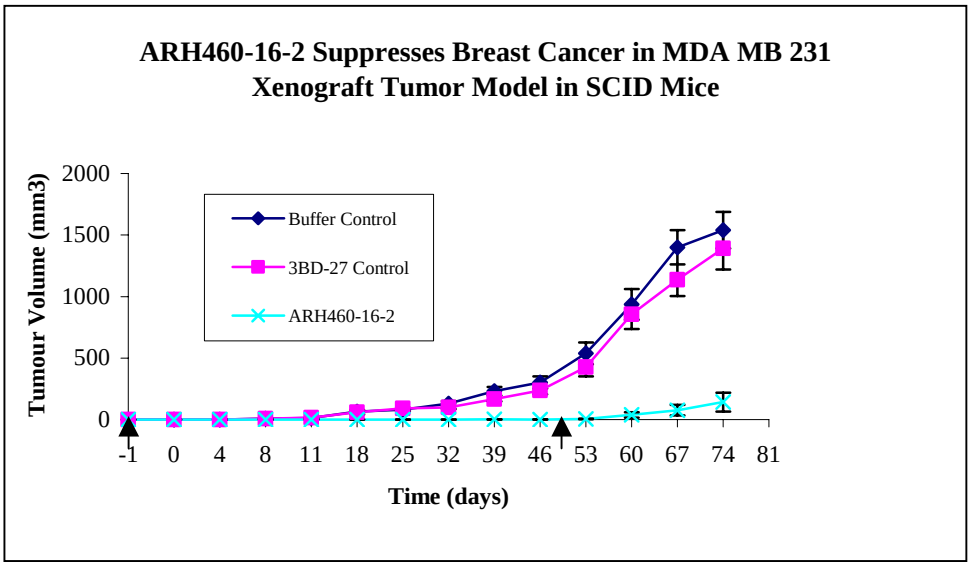
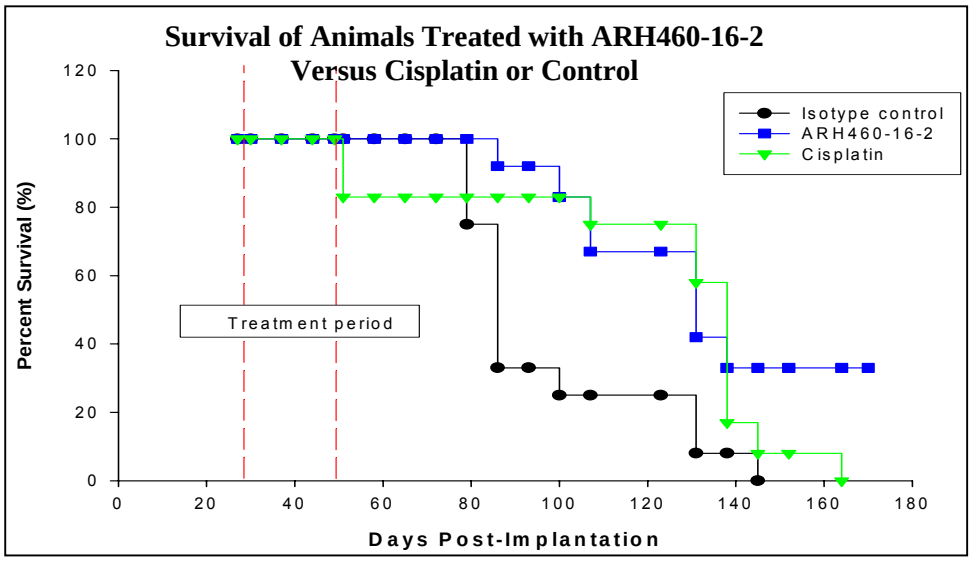
[1] Waud, W.R., Dykes, D.J., Hollingshead, M.G., Camalier, R.F., Steeg, P.S., Mayo, J.G. Characterization of in vivo Mammary and Prostate Tumor Xenograft Modles for Growth and Response to Clinical Anti-cancer Agents. In Fiebig HH, Burger AM (eds): Relevance of Tumor Models for Anticancer Drug Development. Contrib Oncol. Basel, Karger, 1999 vol 54, pp 305-315



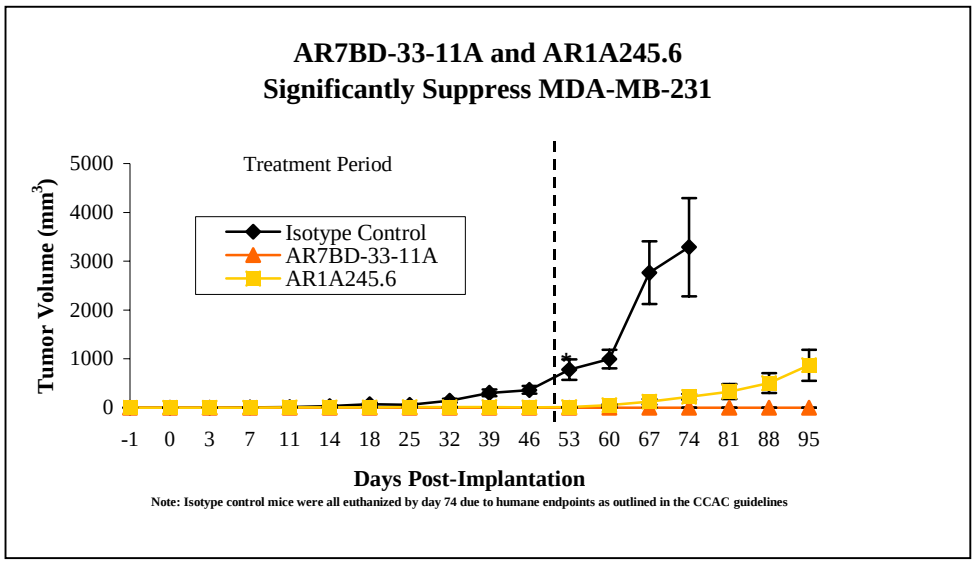
A second type of study addressed the anti-tumour activity *in vivo* in a xenograft (MDA-MB-231) model of breast cancer where tumours have been established prior to treatment and have been allowed to grow to an average volume of 100 mm^3 in SCID mice. Groups of mice were treated with one of an inactive antibody control, cisplatin or the active antibody, ARH460-16-2. The rate of tumour growth in the antibody and cisplatin groups was significantly slower than in controls. Examining differences between individual pairs of groups at the end of the study revealed that mean tumour volumes were significantly smaller between controls and each of the ARH460-16-2 and positive chemotherapy control groups at the $p<0.001$ level. Looking at the survival data however shows that all the cisplatin-treated mice had died by 165 days after treatment, whereas, one third of the antibody treated animals were still alive.



The antigen target for ARH460-16-2 has been identified and shown to be CD44, an important and prevalent cancer antigen. This target is believed to play a critical role in the behavior of cancer cells with respect to tumour origin, cellular adhesion, migration, invasion, metastasis. The mouse version of the antibody has been engineered to a chimaeric version in preparation for manufacturing human clinical trial supplies.

AR7BD-33-11A. Results for AR7BD-33-11A were presented at the February 2003 Keystone and July 2003, AACR conferences and published in the Proceedings of the AACR. This antibody showed complete inhibition of tumour

growth in prophylactic breast cancer MDA MB-231 and suppressed tumour growth in prostate PC3 xenograft models. Treatment with the antibody AR7BD-33-11A resulted in significant delay in tumour growth in the established tumour models for both cancer lines. AR7BD-33-11A also had cytotoxic activity *in vitro* against another human breast cancer.



AR7BD-33-11A was given to SCID mice that had been implanted with human breast cancer tumours as described previously. The animals were treated with antibody (20mg/kg), or inactive control on a weekly basis starting on day –1. and ending on day 49. There was no measurable tumour growth in the AR7BD-33-11A-treated animals. The control animals all developed tumours.

Significant differences in tumour volumes ($p<0.000$) between the AR7BD-33-11A and control groups persisted out to at least day 95, 46 days past the end of treatment. At the end of the measurement period of the study, none of the AR7BD-33-11A -treated animals had measurable tumours compared to 100% of controls, which had a mean tumour volume of 3300mm³.

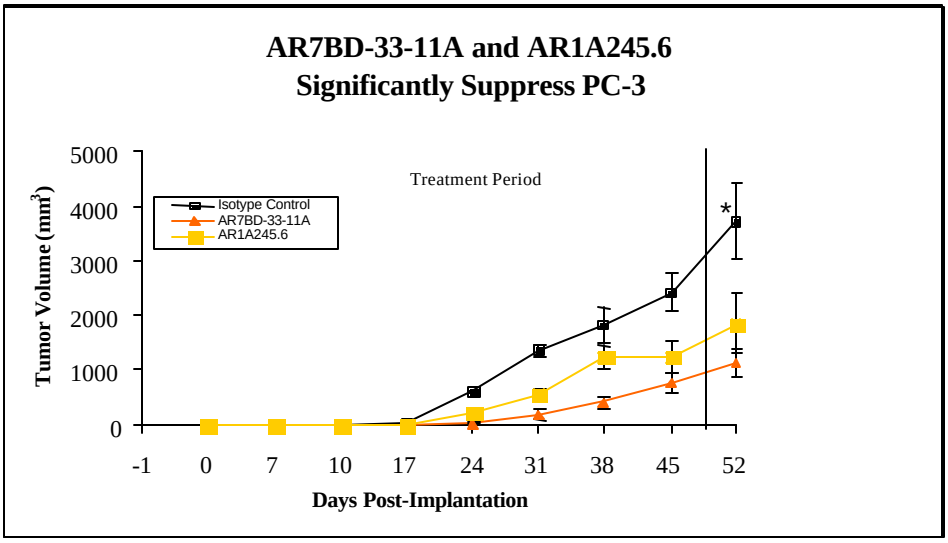
There was also a survival benefit, with AR7BD33-11A treatment. By Day 80, none of the controls were alive whereas all animals treated with AR7BD33-11A were still alive at Day 200.

In a separate study, the tumours were established and allowed to grow to an average of $100mm^{3,}$ before treatment began. Antibody AR7BD-33-11A significantly delayed tumour growth, keeping tumour volumes at pre-treatment levels. There also was a survival benefit. At more than 160 days post implantation, 90% (9/10) of the AR7BD-33-11A-treated animals were alive compared with none (0/10) of the controls.

AR7BD-33-11A has also been studied in prostate cancer and has shown positive results in both preventative and established models. The suppressive impact on tumour growth was reflected in the survival data and in overall health of the animals as indicated by body weight. Animals that were treated with the antibody lived one-third longer than those that were not.

AR1A245.6. AR1A245.6 has shown activity against both breast and prostate cancers. When given to SCID mice that had been implanted with human breast cancer tumours, AR1A245.6, significantly inhibited tumour growth by 44% compared to isotype control on day 59 ($p=.004$). On day 80, AR1A245.6 treated mice had 35% lower mean tumour volumes compared to isotype control ($p=.135$). In a separate study measuring survival, animals implanted with human breast cancer tumours and treated with AR1A245.6 did not reach 100% mortality until approximately day 150, which is double the post-treatment survival time of the isotype control group.

For human prostate cancer implanted in SCID mice, AR1A245.6 also significantly suppressed tumour growth by 50% compared to isotype control on day 52 ($p=.017$). In PC-3 SCID xenograft models, body weight can be used as a surrogate indicator of disease progression. AR1A245.6 significantly reduced the loss of body weight by 25% ($p=.004$) compared with isotype control on day 52.



ARH460-23 (ARvitamabâ). ARvitamab® (ARH460-23) is a novel monoclonal antibody originated by ARIUS that is being developed for therapeutic use. Testing indicates that it suppresses tumour growth and prevents metastases in human lung cancer models. It also recognizes a widely distributed tumour associated antigen and is non-toxic in animal models. ARvitamab® is also effective when combined with cisplatin in animal models of human lung cancer. Cisplatin is a widely used platinum-based agent indicated for a variety of solid tumours including lung, ovarian and testicular cancer. Despite its usefulness, cisplatin is linked to serious side effects that are dose related and cumulative including nephrotoxicity, cytototoxicity, myelosupression and neuropathy. The combination of cisplatin and ARvitamab® appears to be more effective than cisplatin alone, offering the potential to increase efficacy or limit toxicity by lowering the dose. To date, no competing anti-cancer antibodies have been developed against the putative ARvitamab® target antigen despite its having been well characterized for a number of years. The putative target antigen for ARvitamab® exhibits increased expression in many carcinomas including breast, pancreatic, colon and prostate epithelial cancers and nonepithelial cancers such as melanoma and lymphoma. The expression of the antigen has also been implicated in conferring a drug resistance phenotype.

Other Lead Candidates. ARH460-22-1 has demonstrated activity in breast cancer studies with both tumour suppression and survival benefits. The mouse antibody has been engineered to a chimaeric form and the target for ARH460-22-1 is undergoing investigation. AR11BD2E-11-2 is active in an aggressive, estrogen-positive breast cancer model and has a positive effect in an ovarian cancer model. The target for each of these antibodies is under investigation.

Commercial Strategy

Competitive Advantage. The Company's core strength lies in its efficient process for generating functional MAbs. The Company's proprietary functional screening processes deliver a robust and predictable flow of therapeutic antibodies with demonstrated anti-cancer activity, at a cost significantly lower than other biotechnology companies in the antibody sector. The large volume of drug candidates produced by ARIUS significantly increases the probability of one or more reaching the commercial market, thereby reducing the Company's overall risk profile.

Corporate Goals. At present, ARIUS' capabilities and strengths include MAb discovery, optimization, preclinical development and target identification. Over the next five years, the Company intends to extend its in-house capabilities to include protein characterization and clinical development in order to build more value into its antibodies and retain that value following later-stage partnering.

ARIUS' primary corporate objective is to evolve from a pre-clinical company to a clinical company by initiating a Phase I human study within 12 to 18 months. To that end, the Company intends to achieve the following milestones:

- Complete pre-clinical development on six antibodies during 2004 and select the most promising candidate for an Investigational New Drug (IND) submission to the FDA.
- Expand the MAb library and the Company's pipeline using its patented discovery platform and functional screening technology.
- Develop a lead MAb within the next two years to Phase IIb clinical trials.

- Initiate clinical trials with a second lead MAb during 2005.

- Exploit its high-capacity MAb discovery technology through co-development or licensing of antibodies: (1) drawn from the library and (2) generated *de novo* on demand.

Partnerships and Collaborations

Out-Licensing. The MAbs emerging from the Company's antibody generation program allow ARIUS to enter into many partnerships with a wide range of pharmaceutical or biotechnology companies. Potential partners may contribute expertise, such as genomics, proteomics, manufacturing or clinical development, or resources, such as cash or manpower, to complement ARIUS' current internal capabilities. Partnering can occur at different stages ranging from very early or discovery to clinical stage antibodies. Those antibodies that ARIUS retains longer for more advanced development may ultimately be licensed out for upfront and periodic licensing fees, which will assist in funding further in-house projects. Pharmaceutical and large biotechnology companies are under continuing pressure to maintain healthy pipelines of new products. With its increasing number of drug candidates, ARIUS believes it is well positioned to take advantage of this industry environment and has embarked on a strategy to out-license its flow of therapeutic antibodies.

The Company's partnering strategy is designed to maximize the number of corporate alliances in the near term in order to share R&D costs and realize initial revenues. Near term alliances might include two types of research collaborations—one based on development of early stage antibodies and the other to identify and patent targets using the ARIUS antibodies as research reagents. These targets will then be licensed to potential partners as an early source of revenue. The antibodies will come either from the ARIUS library or will be generated for a partner at the time of the collaboration. Revenues from these early stage deals allow the Company to expand its development expertise to include human research and fund clinical trials. Eventually, the Company intends to delay out-licensing in order to command higher payments and royalties from more mature products. In the longer term, as ARIUS grows and becomes more financially self-sufficient, antibodies will be retained for development through Phase II human studies prior to licensing them to finish the pivotal trials and bring the resulting products to market.

Oxford BioMedica. In July 2002, ARIUS entered into a research joint venture with OB which will take 50 antibodies from the ARIUS library and conduct the research necessary to identify and validate the targets (Stage 1). During the second stage of the collaboration, ARIUS and OB have the option to go forward alone or together to develop antibodies and other products to the identified targets ultimately sharing revenues based on each party's contribution. In addition, any novel targets that are found will be patented jointly and either licensed out to generate revenues or used to develop new products. Under the terms of the agreement, OB and ARIUS will either share revenues from out-licensed targets or from any products that are internally developed to those targets.

Xerion Pharmaceuticals. In October 2002, ARIUS entered into a collaboration with Xerion, a privately held German biopharmaceutical company. Under the terms of the agreement, Xerion will take four antibodies generated by ARIUS and conduct research to validate their targets. Xerion and ARIUS will share revenues from out-licensed targets, co-develop the targets or products, or pay the other party for an exclusive license to the targets. Xerion brings to the collaboration expertise in functional proteomics, enabling rapid identification and validation of cancer cell surface proteins targeted by ARIUS' antibodies. ARIUS contributes functional antibodies generated from colon cancer through its proprietary discovery process.

Protein Design Labs. In September 2003, ARIUS entered into an agreement with PDL for a three-year collaboration to discover, develop and commercialize antibodies for cancer treatment. ARIUS will be paid an up-front technology access fee and use these funds to support its research efforts and to fund the generation of new, anti-cancer antibodies using its proprietary processes. PDL will validate and develop 10 antibody candidates and will have the option to license half of them to add to their clinical development pipeline. ARIUS will receive licensing fees, milestone payments, and a percentage royalty on sales of any licensed antibody.

In-Licensing. ARIUS intends to acquire promising products and/or technologies that have been developed externally, provided they fill a gap in the Company's pipeline or expedite a step in the developmental pathway.

In October 2001, ARIUS acquired a worldwide, non-exclusive license from CIMAB of Havana, Cuba for humanization technology to make mouse antibodies more human-like and attenuate the human anti-mouse antibody (HAMA) response. Mouse monoclonal antibodies are often rejected by the human immune system that recognizes them as foreign, not human, proteins. The response reduces antibody effectiveness by neutralizing the binding activity and by rapidly clearing the antibody from the circulation in the body. The CIMAB process (described in U.S. Patent 5,712,120) replaces the constant region (the non-antigen binding portion) of the mouse antibody with a human constant region and then replaces key amino acids in the variable region (the antigen binding portion) with their human equivalents. The

replacement of mouse amino acids with human sequences “fools” the human immune system into treating the altered antibody as if it was fully human. Antibodies made more human this way can be used in human clinical trials.

Other Collaborations. In January 2003, ARIUS entered into an exclusive collaboration with the GI Research Unit of St. Michael's Hospital in Toronto to study antibodies and targets from tumours donated by patients undergoing surgery for colon cancer. ARIUS uses these tumour tissues to generate antibodies as a first step in looking for novel cancer drugs and targets. The antibodies then go through ARIUS' screening program to select those that can target and kill cancer cells.

In May 2003, ARIUS Research Inc. began a collaboration with the ORCC to study a group of cancer killing antibodies in specialized models of human ovarian cancer. Ovarian cancer is an area of significant unmet need and opportunity for new treatments. Researchers at ORCC, have developed unique expertise for evaluating drugs to treat ovarian cancers. ARIUS and ORCC have entered into a collaboration in which ARIUS will match their anti-cancer antibodies to various ovarian cancers and ORCC will then test the antibodies in their models for drug efficacy.

Intellectual Property

ARIUS’ business plan calls for routine assessment of its product pipeline to enable strategic development of a multi-faceted patent portfolio inclusive of all pertinent products and processes.

The Company currently has one issued U.S. patent and one allowed U.S. patent application. Additionally nine U.S. applications are pending, two of which are continuations and three of which are continuations-in-part of earlier filed applications. Efforts to obtain equivalent international coverage are ongoing, and include Canada, Australia, New Zealand, Europe, Japan, and other PCT member nations. ARIUS has also obtained trademarks for ARvitamab® in Canada, and has filed applications for similar trademark protection in the United States and Europe.

The Company’s functional antibody process and derived products are protected under U.S. Patent 6,180,357 entitled *“Individualized Patient specific Anti-Cancer Antibodies”* issued on January 31, 2001. This patent protects the Company’s novel screening paradigm and products that are produced via the methodology.

An allowed patent application, US20020041877A1, protects the isolated monoclonal antibody ARvitamab®, along with the hybridoma cell line from which it is produced. This antibody has demonstrated unique cytotoxicity for cancerous cells when used alone or in combination with chemotherapeutic agents, e.g. cisplatin, when used in animal experiments using human lung cancer.

Regulatory Environment

Research, development and production of the Company's drug product candidates are subject to regulation for safety and efficacy by applicable government authorities. In Canada, these activities are subject to regulation by the *Food and Drug Act* (Canada) and its rules and regulations, which are enforced by the HPFB. In the United States, drugs and biological products are subject to various regulations and rules enforced by the FDA. Drug licensing laws require licensing of manufacturing facilities, carefully controlled research and testing of products, government review and approval of results prior to marketing products, and adherence to good manufacturing processes mandated by Canadian and United States regulatory authorities.

The principal activities which must be completed before obtaining approval for the marketing of any new drug product in Canada and the United States are as follows:

- Pre-clinical Studies – pre-clinical studies are conducted in animals to test pharmacology, efficacy and toxicology and to carry out formulation work based on *in vivo* results.

- Product development and manufacturing research is done to develop drug supplies suitable for humans as well as commercially viable processes and formulations.

- Phase I Clinical Trials – consist of testing a product in a small number of humans to determine its toxicity, dose tolerance, pharmacokinetic and pharmacodynamic properties.

- Phase II Clinical Trials – usually involve a larger patient population than is required for Phase I trials and are conducted to evaluate the effectiveness of a drug in patients having the disease or medical condition for which the drug is indicated. These trials also serve to identify possible common short-term side effects and risks in a larger group of patients.

- Phase III Clinical Trials – involve conducting tests in an expanded patient population at geographically dispersed test sites (multi-centre trials) to establish clinical safety and effectiveness. These trials also generate information from which the overall benefit-risk relationship relating to the drug can be determined and provide a basis for drug labeling.

In the course of conducting clinical trials for a drug candidate, a company may conduct more than one trial of a particular phase in order to evaluate the drug against a variety of indications. In addition, physicians rather than the drug developer may sponsor clinical trials. In such a case, the developer's involvement is usually limited to co-operating with the physician by providing sufficient quantities of drug for the trial and participating in the reporting of the trial results.

Two key factors that influence the rate of progression of dinical trials are the rate at which patients can be recruited to participate in the clinical program and whether effective treatments are currently available for the disease the drug is intended to treat. Patient recruitment is largely dependent upon the incidence and severity of the disease, the treatments available and the potential side effects of the drug to be tested. An Investigational New Drug (**"IND"**) application must be filed and accepted by the HPFB or FDA, as applicable, before each phase of human clinical trials may begin. The IND application must contain specified information including the results of the pre-clinical or clinical tests completed at the time of the IND application. In addition, since the method of manufacture may affect the efficacy and safety of a drug, information on manufacturing methods and standards and the stability of the drug substance and dosage form must be presented so that the HPFB or FDA can ensure that the product which may eventually be sold to the public has the same composition as that determined to be effective and safe in the clinical trials. Production methods and quality control procedures must be in place to ensure a relatively pure compound, essentially free of contamination and uniform with respect to all quality aspects.

Upon completion of all clinical trials, the results are submitted to the HPFB as part of a new drug submission (**"NDS"**), or to the FDA as part of a product license application or New Drug Application (**"NDA"**), to obtain approval to commence marketing of the drug. HPFB and FDA marketing approval for the majority of products will typically take between 12 and 36 months from the date an NDS in Canada, or an NDA in the United States, is submitted. In addition, an establishment license application for the production of a product must be filed and approved by the HPFB, and test sites must demonstrate that good manufacturing procedures have been maintained during pre-clinical and clinical evaluation.

In order to ensure the timely availability of safe and effective drugs, the United States has adopted a statutory program to accelerate or "fast track" the approval of drugs to treat specific indications. The intention of the various fast track programs developed by the FDA is to expedite the review of drugs that are intended to treat serious or life-threatening conditions and that demonstrate the potential to meet unmet medical needs. On obtaining fast track designation, the sponsor of the product can be considered for a number of procedures regarding marketing applications including priority review of a product approval application.

The Company's or the Company's corporate partners' success in ultimately obtaining marketing approval for products currently under development will depend on their ability to comply with worldwide regulations governing manufacturing, quality control, pre-clinical evaluation and clinical testing. Depending upon the circumstances surrounding the clinical evaluation of a product candidate, the Company may itself undertake clinical trials, contract clinical trial activities to contract research organizations, or rely upon corporate partners for such development. The Company believes that this approach will allow it to make cost effective development decisions in a timely fashion.

Competition

ARIUS faces therapeutic competition from several companies in the biotechnology and pharmaceutical sectors working in the area of anti-cancer antibodies. Most of the discovery work being done with antibodies begins with a known target. Competitive technology platforms include conjugating antibodies to chemotherapy or radioactive agents, making human antibodies in transgenic mice and expressing large numbers of antibodies in phage or other display systems that eliminate the need to immunize animals. Larger competitors also have manufacturing capabilities for human grade research supplies and/or commercial product. Five antibodies have been marketed as cancer therapies, including Rituxan, Herceptin, Campath, Mylotarg and Zevalin in the United States and Edrecolomab in Germany. To date only Herceptin treats solid tumours.

Outside the antibody market there are other therapies that will compete for use in the cancer market. According to a recent survey by the Pharmaceutical Research and Manufacturers of America, of the 369 biotechnology products in commercial development, nearly one half (175) are for cancer. Emerging therapies include immunotherapies like vaccines, angiogenesis inhibitors, tyrosine kinase inhibitors, anti-sense therapies and gene therapies. Among the other types of treatment that act on the immune system are interleukins and macrophage colony stimulating factors. Finally,

there is ongoing development of small molecule chemotherapies and hormone treatments. All of these treatments also present opportunities for combination with antibodies as well as being potential competitors.

Facilities

The Company's executive offices and in-house laboratory is housed in a 6,700-square-foot facility at 55 York Street, Suite 1600, Toronto, Ontario. These premises are under a lease that expires on February 28, 2011 at an average annual rental, including taxes, maintenance and insurance, of approximately $240,000.

Human Resources

As of August 31, 2003, ARIUS had 18 full time employees, of whom 15 are scientists, two are engaged in finance and administration, and one is engaged in business development. Three of the 15 scientists hold Ph.D degrees, one holds an M.D. and seven hold bachelors or masters of science degrees. All research and development is conducted primarily under the supervision of Dr. David S. Young, Chairman, President and Chief Scientific Officer of the Company.

USE OF PROCEEDS

The net proceeds from the sale of the Units (after deducting the fees payable to the Agents and the estimated expenses of $• associated with the Offering) are estimated to be $•, if the Minimum Offering is obtained, $• if the maximum offering is obtained and $• if the Over-Allotment Option is exercised in full. The net proceeds will be used as follows:

Description	Use of Funds		
	Minimum Offering	Maximum Offering	Over-Allotment Option
Pre-Clinical Development	$ •	$ •	$ •
Clinical Trial Supply Manufacturing	•	•	•
Phase I Clinical Trial Initiation	•	•	•
Research and Development	•	•	•
Repayment of Demand Loan	•	•	•
Total	**$** ·	**$** ·	**$** ·

As of August 31, 2003, the estimated working capital of the Company is $1.2 million, consisting primarily of cash and refundable tax credits. Total funds available following completion of the offering will be between $• and $•. Although the Company intends to spend these funds as stated in this prospectus, there may be circumstances where, for sound business reasons, a reallocation of funds is necessary.

SELECTED FINANCIAL INFORMATION

Annual and Quarterly Information

The following selected financial information has been derived from the financial statements of the Company contained in this prospectus as well as the financial statements of the Company filed and available on SEDAR and should be read in conjunction with such statements and notes thereto:

Income Statement Data	Periods of Six Months Ended May 31 (Unaudited)		Fiscal Years Ended November 30 (Audited)		
	2003	2002	2002	2001	2000
Revenue and Interest Income	$90,700	$41,798	$59,240	$167,653	$250,167
Loss for the period	(1,134,827)	(1,086,999)	(2,536,020)	(2,615,705)	(1,190,808)

Income Statement Data	Periods of Six Months Ended May 31 (Unaudited)		Fiscal Years Ended November 30 (Audited)		
	2003	2002	2002	2001	2000
Loss per share	(0.23)	(0.22)	(0.52)	(0.63)	(0.34)
Average number of shares outstanding	4,891,008	4,891,008	4,891,008	4,175,055	3,495,491
Balance Sheet Data	**As at May 31 (Unaudited)**		**As at November 30 (Audited)**		
	2003	**2002**	**2002**	**2001**	**2000**
Cash and equivalents	$669,636	$2,781,545	$1,421,182	$4,059,059	$5,345,649
Current assets	1,733,590	4,005,186	2,810,098	5,361,963	5,752,237
Total assets	2,295,319	4,879,986	3,635,924	6,296,866	5,998,440
Current liabilities	161,340	158,867	367,118	484,725	210,621
Long term debt	—	3,293	—	7,315	—
Shareholders' equity	2,133,979	4,717,827	3,268,806	5,804,826	5,787,819

Selected Quarterly Financial Information

The following selected quarterly financial information has been derived from the financial statements of the Company filed and available on SEDAR and from additional Company information.

	Quarters Ended (unaudited)							
	May 31, 2003	Feb. 28, 2003	Nov. 30, 2002	Aug. 31, 2002	May 31, 2002	Feb. 28, 2002	Nov. 30, 2001	Aug. 31, 2001
Revenue and Interest	$ 86,636	$ 4,064	$ 8,127	$ 11,784	$ 24,273	$ 25,015	$ 24,104	$ 30,290
Loss for Period	(556,514)	(578,313)	(819,032)	(629,988)	(519,258)	(560,251)	(748,850)	(708,872)
Loss per share (basic & diluted)	(0.11)	(0.12)	(0.17)	(0.13)	(0.11)	(0.11)	(0.16)	(0.18)

MANAGEMENT DISCUSSION & ANALYSIS OF FINANCIAL RESULTS

The following is a discussion and analysis of the financial condition and results of operations of the Company for the six months ended May 31, 2003 and May 31, 2002 and for the years ended November 30, 2002, November 20, 2001 and November 30, 2000, and of certain factors that management believes are likely to affect the prospective financial condition, cash flows and results of operations of the Company. The following discussion and analysis should be read in conjunction with the selected financial information and the Company's financial statements and the related notes included elsewhere in this prospectus. The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles.

Six Months Ended May 31, 2003 Compared with Six Months Ended May 31, 2002

Results of Operations. Revenue and interest income for the six months ended May 31, 2003 was $90,700, compared with $41,798 for the same period last year, representing an increase of $48,902. The increase is largely attributable to recognition of a licensing option fee paid by Protein Design Labs, Inc. in October 2002, which was fully earned on completion by ARIUS of selected studies on two antibodies. The increase in revenue is also attributable to receipt of interest on Scientific Research and Experimental Development (SR&ED) refunds received from the federal and provincial governments.

Research and development expenditures for the quarter, which include costs associated with pre-clinical research, product development and regulatory affairs, are reported net of accrued SR&ED tax credits. During the six months ended May 31, 2003, the Corporation incurred research and development expenses of $821,228 after

consideration of tax credits, an increase of $78,891 or 11% over $742,337 last year. This increase reflects a higher expenditure on employee salaries as a result of additional R&D staff hired during the first quarter.

General and administrative expenses increased in the six months ended May 31, 2003 by 8% to $346,778 from $319,940 in the prior period, reflecting in part increased travel and accommodation expenses due to heightened business development activity.

Amortization of capital assets decreased by $8,998 to $57,522 during the six months ended May 31, 2003 from $66,520 in the previous year, a 14% decline reflecting the declining balance of undepreciated capital equipment and leasehold improvements that were purchased during the 2001 fiscal year.

The loss for the first half amounted to $1,134,827 or $0.23 per common share, as compared to $1,086,999 or $0.22 per common share during the equivalent period last year.

Liquidity and Capital Resources. The Corporation has relied primarily on equity offerings, license fees and SR&ED refunds to finance its operations and capital asset acquisitions since incorporation. As at May 31, 2003, the Corporation had cash and cash equivalents of $669,636, versus $2,781,545 the previous year. Working capital decreased to $1,572,250 at the end of the second quarter from $3,846,319 the previous year, a decline of 59%. Cash used for operating activities in the first half was $739,789, compared to $1,268,865 in the previous period, a decrease largely attributable to the higher R&D head count over last year as offset by the receipt of refundable tax credits in 2003.

Accrued recoverable investment tax credits were $830,993 as at May 31, 2003 as compared to $1,173,785 at the same time last year, a decrease of 29%. The decrease was due to the receipt during the second quarter of the Company's annual SR&ED refund, which last year was not paid until the third quarter. The maximum refundable federal tax credits for the current fiscal year is 35% on the first $2 million of eligible SR&ED expenditures. The Company is also eligible for the Ontario Innovation Tax Credit at a rate of 10% on the first $2 million of eligible SR&ED expenditures.

Financing activities during the six months ended May 31, 2003 were confined to repayment of long-term debt in the amount of $4,938 relating to the purchase of lab equipment. During the corresponding period last year, $2,231 was paid pursuant to the same item of equipment.

Investing activities consumed $7,419 during the six months ended May 31, 2003, compared with $6,418 in the same period of the prior year. This increase was the result of slightly higher laboratory equipment and computer purchases during the period. As of May 31, 2003, the Corporation had current and long-term debt in the amount of $3,293, as compared to May 31, 2002, when the comparable figure was $13,169.

On September 4, 2003, the Company obtained a revolving demand credit facility for up to $650,000 from a Canadian chartered bank, which is secured by refundable Scientific Research and Experimental Development and Ontario Innovation tax credits claimed by the Company and totaling approximately $910,000. The amount borrowed under the credit facility is repayable on receipt of such tax credits.

Year Ended November 30, 2002 compared with Year Ended November 30, 2001

Results Of Operations. Interest income for the year ended November 30, 2002 was $59,240, compared with $167,653 for the year ended November 30, 2001, representing a decrease of $108,413 or 65%. Interest income in both years resulted entirely from bank interest, with the decrease attributable to declining interest rates and a lower average cash balance during fiscal 2002 as compared to fiscal 2001.

During fiscal 2002, the Corporation incurred research and development expenses of $1,631,698, after consideration of tax credits, a decrease of $206,488 (11%) from $1,838,186 in fiscal 2001. This decrease, offset by a modest rise in R&D salaries, largely reflects the fact that ARIUS did not incur antibody manufacturing costs during 2002, having suspended plans early last year to enter a clinical trial.

General and administrative expenses decreased by $8,237 to $829,720 in fiscal 2002 from $837,957 in the previous fiscal year, reflecting a rise in executive salary compensation and offset by decreases in costs of travelling and other administration.

Amortization of capital assets increased by $26,627 to $133,842 in fiscal 2002 from $107,215 in the previous year, a 25% increase reflecting full-year depreciation of capital equipment and leasehold improvements that were purchased during the previous fiscal year.

The loss for fiscal 2002 amounted to $2,536,020 or $0.52 per common share, compared to $2,615,705 or $0.63 per common share, in fiscal 2001.

Liquidity and Capital Resources. As of November 30, 2002, the Corporation had cash and cash equivalents of $1,421,182, versus $4,059,059 the previous year. Working capital decreased by $2,434,258 to $2,442,980 at the end of fiscal 2002 from $4,877,238 the previous year. Cash used for operating activities in fiscal 2002 was $2,605,942, compared to $3,122,881 in the previous year, a decrease attributable to a decision in early 2002 to halt manufacturing of the ARH460-23 antibody and suspend plans to enter clinical trials.

Financing activities during fiscal 2002 were confined to repayment of long-term debt in the amount of $7,169 relating to the purchase of equipment, as compared to fiscal 2001, when $2,632,712 was provided from an offering of rights to shareholders, among other sources.

Investing activities consumed $24,766 during fiscal 2002, compared with $811,821 in the previous year. This decrease was the result of normalized capital investment levels following a year in which the Corporation incurred significant leasehold and equipment outlays pursuant to its move new laboratory and office facilities.

As of November 30, 2002, the Corporation had current and long-term debt in the amount of $8,231, as compared to November 30, 2001, when the comparable figure was $15,400.

Year Ended November 30, 2001 compared with Year Ended November 30, 2000

Results Of Operations. Interest income for the year ended November 30, 2001 was $167,653 compared to $250,167 for the same period last year, representing a decrease of $83,000 or 33%. Interest income in both years resulted entirely from bank interest, with the decrease attributable to declining interest rates and a lower average cash balance during fiscal 2001 as compared to fiscal 2000.

During fiscal 2001, the Corporation incurred R&D expenses of $1,838,186, after consideration of tax credits, an increase of $1,225,000 (200%) from $613,213 in fiscal 2000. This increase is the result of expansion of operations during fiscal 2001, which encompassed a move to a stand-alone laboratory facility and an attendant increase in R&D personnel from nine at the end of fiscal 2000 to 16 at the end of fiscal 2001.

Among significant additional expenditures incurred during 2001 were fees paid to CIMAB to in-license its proprietary monoclonal antibody humanization technology and to Goodwin Biotechnology Inc. (GBI) to manufacture antibodies in quantities sufficient for a clinical trial. The latter contract was suspended in January 2002, and management has not incurred further fees to GBI since that date.

General and administrative expenses increased by 9% to $837,957 in fiscal 2001 from $792,544 in the previous fiscal year, reflecting increased business development and financing activities.

Amortization of capital assets increased by $72,000 to $107,215 in fiscal 2001 from $35,219 the previous year, a 205% increase reflecting significant expenditures in capital equipment and leasehold improvements associated with the Corporation's change of premises in February 2001.

The loss for fiscal 2001 amounted to $2,615,705 or $0.63 per common share, compared to $1,190,808 or $0.34 per common share, in fiscal 2000.

Liquidity and Capital Resources. As of November 30, 2001, the Corporation had cash and cash equivalents of $4,059,059, versus $5,345,649 the previous year. Working capital decreased by $664,378 to $4,877,238 at the end of fiscal 2001 from $5,541,616 the previous year. Cash used for operating activities in fiscal 2001 was $3,122,881, compared to $1,269,206 in the previous year, an increase attributable to the expansion of the Corporation's operations and the costs associated with manufacturing antibody in sufficient quantities to commence a clinical trial. In January 2002, plans to enter clinical trials were suspended pending receipt of further pre-clinical data and resolution of manufacturing issues.

Cash provided from financing activities during fiscal 2001 was $2,648,112, compared to $5,522,525 in the previous period. On October 4, 2001, the Corporation completed a rights offering in which 756,000 common shares were issued to existing shareholders for at a price of $3.50 each for total gross proceeds of $2,646,000 less issuance costs. In addition, 85,000 share purchase options were exercised at $2.00 each for total proceeds of $170,000.

As of November 30, 2001, the Corporation had current and long-term debt in the amount of $15,400, which relates to a financing arrangement for the purchase of laboratory equipment. As of November 30 the previous year, the Corporation had no debt.

Investing activities consumed $811,821 during fiscal 2001, compared to $346,968 in the previous year. This increase was the result of leasehold improvements and capital equipment acquisitions pursuant to the Corporation's move to its own laboratory and office space in early 2001.

DESCRIPTION OF SECURITIES DISTRIBUTED

Authorized Capital

The authorized capital of ARIUS consists of an unlimited number of Common Shares and an unlimited number of non-voting preference shares (**"Preference Shares"**) issuable in series. There are 4,891,008 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.

Share Purchase Warrants

The following is a summary of the material provisions of the Warrants (the **"Warrants"**) and is subject to the detailed provisions of the Warrant Indenture referred to below.

The Warrants will be issued in registered form. The Warrants will be issued pursuant to an indenture (the **"Warrant Indenture"**) dated as of ?, 2003 entered into between the Company and Equity Transfer Services Inc., as warrant agent (the **"Warrant Agent"**). The Warrants may be surrendered for exercise, exchange or replacement at the principal office of the Warrant Agent in Toronto. The Warrant Indenture will provide for the issue of ? Warrants, being the maximum number of Warrants issuable under the Offering.

Each Warrant will entitle the holder thereof to purchase one Common Share at a price of $?, subject to adjustment in certain events, at any time on or before ?. The 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 $? per share, subject to adjustment in certain events, in each case.

The Warrants will provide for the adjustment of the exercise price and, in certain events, the number of Common Shares issuable on exercise of the 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 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 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 Warrants will provide that modifications and alterations to the Warrants may be made if authorized by extraordinary resolution. The term "extraordinary resolution" will be defined in the Warrant Indenture to mean, in effect, a

resolution passed by the affirmative vote of the holders of not less than 51% of the outstanding 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 Warrants.

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

Holders of the 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 Indenture and the requirements of applicable securities legislation, the Warrants are transferable.

The Company has agreed to pay to the Agents an amount equal to 3% of the proceeds received from the exercise of the Warrants as and when they are exercised.

CAPITALIZATION

The following table sets forth the capitalization of the Company as at November 30, 2002 and as at August 31, 2003 after giving effect to the Offering. This table should be read in conjunction with the audited financial statements of the Company and the related notes thereto included elsewhere in this prospectus.

	Authorized	**Outstanding as at November 30, 2002**	**Outstanding as at August 31, 2003**	**Pro Forma Outstanding as at August 31, 2003[1]**
Common Shares	unlimited	4,891,008 shs ($10,019,262)	4,891,008 shs ($10,031,262)	• shs[2] ($•)[3]

(1) Gives effect to the issue of the Units under the Offering (assuming the Offering is fully subscribed) without giving effect to the Over-Allotment Option.

(2) After giving effect to this Offering (assuming that it is fully subscribed), a total of ? Common Shares will be reserved for issue following the Offering as follows:

(a) ? Common Shares will be reserved for issue upon exercise of the Warrants ;

(b) ? Common Shares will be reserved for issue upon exercise of the Compensation Options referred to under *"Plan of Distribution"* and

(c) if the Over-Allotment Option is exercised in full, an additional • Common Shares will be reserved for issue upon exercise of the Over-Allotment Option.

(3) After deducting expenses of this issue estimated at $• and the Agents' Fee of $?. If the Over-Allotment Option is exercised in full, the maximum offering will be $•, the Agents' fee will be $• and the net proceeds to the Company will be $•.

DIVIDENDS

The Company has not paid dividends since its inception. ARIUS will consider paying dividends in the future on its common shares when its operational circumstances permit including earnings, cash flows, financial and legal requirements and business considerations.

PRICE RANGE AND TRADING VOLUME OF COMMON SHARES

The Common Shares are traded on the TSX Venture Exchange under the trading symbol "YAR". Prior to October 2, 2000, the Common Shares were traded on the Canadian Dealing Network. The following table shows particulars of trading of Common Shares of the Company for the periods indicated:

Month	High	Low	Volume
2001			
3rd Quarter	$4.50	$3.50	181,610
4th Quarter	$4.00	$3.00	251,295
2002			
1st Quarter	$3.45	$2.25	100,800
2nd Quarter	$2.90	$2.00	91,710
3rd Quarter	$2.40	$0.70	91,100
4th Quarter	$2.35	$0.60	108,300
2003			
1st Quarter	$1.26	$0.75	72,495
March	$1.25	$0.98	31,000
April	$1.05	$0.93	11,500
May	$0.90	$0.60	93,590
June	$0.80	$0.70	30,500
July	$1.10	$0.71	33,950
August	$1.00	$1.00	2,100
September (to September 29)	$1.25	$0.95	12,700

ESCROWED SECURITIES

The following table sets forth certain information as of August 31, 2003 with respect to certain securities of the Company which are subject to escrow.

Designation of Class	Number of Securities Held in Escrow	% of Class Outstanding
Common Shares	948,797	19.39%

Pursuant to an escrow agreement dated March 7, 2000, among the Company, Dr. David S. Young, SynX Pharma Inc. and Equity Transfer Services Inc., the escrowed shares will be released as to 379,519 shares on December 8, 2003, and the remaining 569,278 shares on December 8, 2004.

PRINCIPAL SHAREHOLDER

To the knowledge of the directors and senior officers of the Company, no person or company beneficially owns, directly or indirectly, or exercises control or direction over shares carrying more than 10 percent of the voting rights attached to all shares of the Company except as indicated below:

Name of Holder	Type of Ownership	Number of Common Shares	% of Outstanding Common Shares	% After Giving Effect to the Offering[(1)]
David S. Young	Direct	1,500,001[(2)]	30.7%	•%

(1) Assumes the Offering is fully subscribed but does not give effect to the Over-Allotment Option.

(2) Dr. David Young owns these Common Shares of record and beneficially.

MANAGEMENT OF THE COMPANY

Directors and Officers

The following table and notes set forth the name, municipality of residence, position held with the Company and principal occupation of each director and officer of the Company, as well as the respective years from which each director has served as a director of the Company. The term of each of the directors will expire at the next annual meeting of shareholders of the Company.

Name & Municipality of Residence	Position with Company	Principal Occupation	Director Since
David S. Young Toronto, Ontario	Chairman, President & Chief Scientific Officer and Director	Officer of the Company	1999
William T. Bodenhamer[(1)(2)] Toronto, Ontario	Director	President & Chief Executive Officer of Toxin Alert Inc., a research and development company	1999
Dan Andersen[(1)(2)] Toronto, Ontario	Director	President of Preference North America Inc., a private software development company	1999
Diane Kalina[(1)(2)] Oakville, Ontario	Director	Vice President, BioCatalyst Yorkton Inc., President, Minerva Communications Group Inc., both consulting firms and Director of BCY LifeSciences Inc.	2003
Helen Findlay Toronto, Ontario	Vice President	Officer of the Company	N/A
Neil Nawaz Toronto, Ontario	Director, Finance and Legal Affairs	Officer of the Company	N/A

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

Except as disclosed below under *"Management"*, during the last five years, the directors and officers of the Company noted above have held the occupation or have been associated with the companies or firms listed opposite their respective names except for Dan Andersen who, prior to March 2001, was Chairman & CEO, TriTec Power Systems Ltd., a technological development company and prior to September 1997, was President of TruStone Inc., a manufacturing company, and Diane Kalina who from August 1998 to November 2002, was Chief Financial Officer and Director of BCY LifeSciences Inc., a development stage biopharmaceutical company. In May 2003, Ms. Kalina was reappointed as a Director of BCY Lifesciences Inc. Ms. Kalina also provides consulting services with respect to business development and drug licensing pursuant to a contract with BioCatalyst Yorkton Inc. dated March 1, 2002 and which is renewable annually.

The directors and executive officers of the Company beneficially own, directly or indirectly, or exercise control or direction over an aggregate of 1,506,502 Common Shares representing •% of the issued and outstanding Common Shares.

Management

ARIUS' management team consists of experienced scientists and management personnel that have a proven track record of commercial success. The management personnel are all engaged with the Company on a full-time basis. All management personnel have entered into Confidentiality, Non-Competition and Assignment of Research and Invention Agreements with the Company.

David S. Young, (Age: 37), M.D., M.Sc., Chairman, President and Chief Scientific Officer — Dr. Young oversees general corporate strategy and directs the Company's scientific program. He received his Doctor of Medicine degree in 1990 and Master of Science degree through the Surgical Scientist Program in 1996, both from the University of Toronto. He completed his surgical training at the University of Toronto between 1991 and 1997, including surgical internship at the Toronto General Hospital, residency in General Surgery at Mount Sinai Hospital and within the division of Cardiovascular Surgery at St. Michael's Hospital in Toronto. From 1997 to 1999, he was a clinical associate in the Division of Cardiovascular Surgery at Michael's Hospital in Toronto. While at the University of Toronto he received fifteen awards and scholarships. He is a diplomate of the Medical Council of Canada and of National Board of Medical Examiners of the United States of America and holds an Independent Practice Certificate from the College of Physicians and Surgeons of Ontario. He is the author of more than 40 papers, abstracts and patents. He began his research career studying the role of the immune system in xenograft rejection in cardiac transplantation and has moved forward investigating its role in cancer. Dr. Young established ARIUS to commercially develop antibodies that can be manipulated to fight disease more effectively.

Helen Findlay, (Age: 49), M.A., Vice President — Ms. Findlay is primarily responsible for the Company's licensing and business development affairs. Ms. Findlay brings to ARIUS nearly two decades of experience in the pharmaceutical industry and healthcare consulting. From May 1999 to August 2000, Ms. Findlay was Consumer Strategist at In-Sync Research Inc., a consulting firm based in Toronto. From October 1993 to May 1999, Ms. Findlay was Senior Vice President and Managing Director of the Healthcare Division at Angus Reid Group, a Toronto-based market research

firm. There she was responsible for design, execution analysis and presentation of both qualitative and quantitative research studies in a wide range of therapeutic areas, including oncology and infectious disease. Ms. Findlay has published studies on the epidemiology and impact of migraine, the impact of emesis on quality of life in cancer patients receiving chemotherapy, the management of cancer pain and symptoms and side effects experienced by cancer patients. Prior to Angus Reid, Ms. Findlay spent 12 years in the pharmaceutical industry working for Glaxo Canada Inc., Janssen Canada Inc. and Smith Kline & French Canada Ltd. in clinical research, drug regulatory affairs and new product development. She received her M.A. from Queen's University in 1982.

Neil P. Nawaz, (Age: 38), M.B.A., LL.B., Director, Finance and Legal Affairs — Mr. Nawaz is a lawyer who has extensive experience in raising capital and organizing biotechnology start-ups. Mr. Nawaz's responsibilities include supervision of the Company's fundraising activities as well as its budget, control and compliance functions. Prior to joining ARIUS in July 2000, he was an associate with Raphael Partners, a Toronto law firm, from September 1998 to June 2000. Previously he spent two years in public accounting. He received his MBA from the University of Toronto in 1991, his law degree from the University of Manitoba in 1996 and is a member of the Ontario and Manitoba Bars.

Susan Hahn, (Age: 40), Ph.D., Head of Research and Development — Dr. Hahn is responsible for implementing the Company's scientific program. She has worked in the biopharmaceutical industry for eight years and has broad experience in drug discovery and assay development. Prior to joining ARIUS in December 2001, she was a Senior Research Scientist at Maxxam BioDiscoveries Inc., a Toronto-based biotechnology company from March 1999 to April 2001. From April 1995 March 1999, she was a Research Scientist at Allelix Biopharmaceuticals Inc., a Mississauga-based biotechnology company. Dr. Hahn earned her doctorate in clinical biochemistry at the University of Toronto in 1994.

Employment Agreements

The services of Dr. David S. Young, Chairman, President and Chief Scientific Officer of the Company, are provided to the Company pursuant to an agreement dated as of November 1, 1999 among the Company and 1386892 Ontario Limited (the **"Consultant"**), a company owned and controlled by Dr. Young. Under the agreement, the Company pays a consulting fee of $160,000 plus G.S.T., to be reviewed annually, and a bonus of up to 50% of Dr. Young's base salary for the previous calendar year. The amount of any bonus payable is based upon the achievement of business objectives, to be determined at the discretion of the board of directors of the Company. The Company may terminate the agreement at any time upon six months prior written notice, or payment in lieu of notice, or upon notice by the Company, in the event that Dr. Young ceases to be employed by the Consultant or ceases to be available to perform, or is unable to perform, the services provided for in the agreement and the Consultant may resign on no less than two months notice to the Company. The agreement provides that during the term of the agreement and for a period of two years thereafter, neither 1386892 Ontario Limited nor Dr. Young will, directly or indirectly, compete with the Company in respect of the business of the Company.

The services of Helen Findlay, Vice President of the Company, are provided to the Company pursuant to an employment agreement dated July 12, 2000. The agreement provides for the payment of a base salary of $145,000 per year to be reviewed annually, plus a transportation allowance of $7,200 per year and a bonus of up to 30% of Ms Findlay's base salary for the previous calendar year. The amount of any bonus payable is based upon the achievement of individual and business objectives, to be determined at the discretion of the board of directors of the Company. Under the agreement, options in respect of 75,000 Common Shares were issued at an exercise price of $2.75 per share. The Company may terminate the agreement at any time, without cause, upon six months prior written notice or payment in lieu thereof.

The services of Neil Nawaz, Director, Finance and Legal Affairs, are provided to the Company pursuant to an employment agreement dated July 5, 2000. The agreement provides for the payment of a base salary of $90,000 per year, to be reviewed annually, plus a transportation allowance of $4,800 per year and a bonus of up to 30% of Mr. Nawaz's base salary for the previous calendar year. The amount of any bonus payable is based upon the achievement of individual and business objectives, to be determined at the discretion of the board of directors of the Company. Under the agreement, options in respect of 30,000 Common Shares were issued at an exercise price of $2.75 per share. The Company may terminate the agreement at any time, without cause, upon three months prior written notice or payment in lieu thereof.

The services of Susan Hahn, Head of Research and Development, are provided to the Company pursuant to an employment agreement dated October 29, 2001. The agreement provides for the payment of a base salary of $80,000 per year, to be reviewed annually, and a bonus of up to 20% of Dr. Hahn's base salary for the previous calendar year. The amount of any bonus payable is based upon the achievement of individual and corporate objectives, to be determined at the discretion of the President and Chief Scientific Officer of the Company. Under the agreement, options

in respect of 15,000 Common Shares were issued at an exercise price of $3.25 per share. The Company may terminate the agreement at any time, without cause, upon three weeks prior written notice or payment in lieu thereof.

Corporate Cease Trade Order or Bankruptcies

Other than as stated below, during the ten years preceding the date of this Prospectus, no director, officer or control person of the Company has, to the knowledge of the Company, been a director or officer of another issuer which, while such individual was acting in that capacity: (a) was the subject of a cease trade or similar order or an order that denied such other issue or access to any statutory exemptions for a period of more than 30 consecutive days; or (b) was declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person. Dan Andersen was Chairman and CEO of TriTec Power Systems Ltd. which was cease traded and went into informal receivership in 2001.

Conflicts of Interest

Conflicts of interest may arise as a result of the directors and officers of the Company also holding positions as directors and/or officers of other companies, to the extent that such other companies may participate in ventures in which the Company may participate, the directors and officers may be in direct competition with the Company. Conflicts, if any, will be subject to the procedures and remedies under the *Business Corporations Act* (Ontario). See *"Risk Factors"*.

Other than as otherwise may be disclosed elsewhere in this Prospectus, there are no known existing or potential conflicts of interest among the Company, its directors, officers, promoters or principal shareholders providing services to the Company or any associate or affiliate of the foregoing which could reasonably be expected to affect an investor's investment decision to acquire Units.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets out information concerning the compensation earned from the Company during each of the last three financial years in respect of the Chief Executive Officer of the Company and the four most highly compensated executive officers of the Company (the **"Named Executive Officers"**).

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards			All Other Compensation ($)
					Awards		Payouts	
		Salary ($)	Bonus ($)	Other Annual Compensation ($)	Securities Under Options Granted (#)	Restricted Shares or Restricted Share Units ($)	LTIP Payouts ($)	
David S. Young[1] Chairman, President & Chief Scientific Officer	2002 2001 2000	nil nil nil	nil nil nil	nil nil nil	nil 15,000 50,000	nil nil nil	nil nil nil	Nil Nil Nil
Helen Findlay[2] Vice President	2002 2001 2000	143,583 128,000 38,231	31,500 25,600 nil	7,200 7,200 1,800	nil 15,000 75,000	nil nil nil	nil nil nil	Nil Nil Nil
Neil Nawaz [3] Director, Research & Development	2002 2001 2000	87,500 60,000 24,167	21,000 12,000 nil	4,800 4,800 1,800	nil 15,000 30,000	nil nil nil	nil nil nil	Nil Nil Nil
Luis Martin[4] Director, Research & Development	2002	107,089	nil	139	60,000[7]	nil	nil	Nil
Christian Frayssignes[5] President & Chief Operating Officer	2002 2001 2000	nil 60,641 137,097	nil nil nil	nil 2,410 4,550	nil nil 300,000[7]	nil nil nil	nil nil nil	Nil Nil Nil

(1) Dr. Young has been President of the Company from its inception on August 11, 1999 to April 30, 2000 and from September 21, 2000 to present. Dr. Young's services are provided to the Company pursuant to an agreement dated October 7, 1999 between the Company and 1386892 Ontario Inc., a company wholly owned and controlled by Dr. Young. Under the agreement, the Company pays a base annual fee and

incentive-based bonus, plus G.S.T., which is subject to annual review. In 2002, the Company paid to 1386892 Ontario Inc. service fees, including bonus, totaling $217,633 (2001 - $171,200; 2000 - $129,900).

(2) Ms. Findlay became an employee of the Company on August 21, 2000.

(3) Mr. Nawaz became an employee of the Company on July 5, 2000.

(4) Dr. Martin was an employee of the Company from January 9, 2000 until November 5, 2002.

(5) From May 1, 2000 to September 21, 2000, Mr. Frayssignes was President and Chief Operating Officer. Under the terms of his employment contract with the Company, he was paid six months of salary in lieu of notice on termination.

(6) Other Compensation is comprised of: (1) automobile allowances that were paid to Ms. Findlay, Mr. Nawaz and Mr. Frayssignes pursuant to their employment contracts; (2) a fitness club subsidy paid to Dr. Martin pursuant to Company benefits policies.

(7) All stock options held by Mr. Frayssignes and Dr. Martin reverted to the Company following cessation of employment.

Directors

Directors who are not executive officers of the Company receive directors' compensation of $12,000 per year plus an amount equal to $1,000 for each meeting attended, plus reasonable expenses. During the last completed financial year, the Company paid a total of $51,000 to directors in their capacity as directors.

Stock Option Plan

The Company has a Stock Option Plan (the **"Plan"**), which provides for the issue of options to purchase Common Shares of the Company to directors, officers, consultants and employees of the Company and members of any scientific advisory committees established by the Company. The Plan is administered by the board of directors.

Options granted under the Plan may be exercised within a maximum period of five years following the grant date thereof. The board of directors designates the recipient of options and determines the number of Common Shares covered by each option, its exercise price, its expiry date and any other terms and conditions relating thereto. The exercise price of options granted under the Plan cannot be less than the closing price of the Common Shares on the trading day immediately preceding the date of grant of the option. Any options issued are non-transferable.

The maximum number of Common Shares reserved for issuance upon exercise of options under the Plan is 800,000 Common Shares. As at August 31, 2003, options to purchase 520,500 (2002 – 602,500) Common Shares were outstanding under the Plan.

The following table sets out certain information with respect to options to purchase Common Shares which were issued under the Stock Option Plan and which were outstanding as of August 31, 2003.

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	Current Market Value of Securities Under Option[(1)]
All executive officers and past-executive officers of the Company as a group (4 individuals)	2	105,000	$2.75	Sept. 21, 2005	nil	nil
	3	45,000	$2.00	Jan. 11, 2006	nil	nil
	1	15,000	$3.25	Jan. 3, 2007	nil	nil
	1	50,000	$1.50	July 8, 2008	nil	nil
All directors and past-directors of the Company who are not executive officers as a group (3 individuals)	3	150,000	$1.50	July 8, 2008	nil	nil
All employees and past employees of the Company as a group (15 individuals)	4	3,500	$2.75	Sept. 21, 2005	nil	nil
	4	18,000	$2.00	Jan. 11, 2006	nil	nil
	2	10,000	$4.00	June 19, 2006	nil	nil
	1	8,000	$4.00	Oct. 11, 2006	nil	nil
	2	12,000	$2.75	Mar. 14, 2007	nil	nil
	1	4,000	$1.50	July 7, 2007	nil	nil
	1	4,000	$2.00	Oct. 2, 2007	nil	nil
	3	16,000	$1.05	Mar. 30, 2008	nil	nil
Consultants and others of the Company as a group (5 individuals	2	35,000	$2.00	Jan. 11, 2006	nil	nil
	2	30,000	$4.00	June 19, 2006	nil	nil
	1	15,000	$3.25	Jan. 3, 2007	nil	nil

(1) Based on the closing market price on •, 2003.

Options Granted During Most Recent Financial Year

The following table sets out certain information relating to options granted during the most recently completed financial year to the Named Executive Officers.

Name	Securities Under Options Granted (#)	% of Total Options Granted to Employees in Financial Year	Exercise Price Per Security ($/Security)	Market Value of Securities Underlying Options on the Date of Grant ($/Security)	Expiration Date
Luis Martin Director, Research & Development	60,000[(1)]	55%	$3.25	$3.25	January 3, 2007

(1) All stock options held by Dr. Martin reverted to the Company following cessation of employment on November 5, 2002.

Aggregate Options Exercised During the Most Recently Completed Financial Year and Financial Year-End Option Values

The following table sets out certain information relating to options exercised by the Named Executive Officers during the most recent financial year and the value of unexercised in-the-money options held by the Named Executive Officers at the end of the most recent financial year:

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options at FY-End November 30, 2002		Value of Unexercised in-the-Money Options at FY-End November 30, 2002	
			Exercisable (#)	Unexercisable (#)	Exercisable ($)	Unexercisable ($)
David S. Young Chairman, President & Chief Scientific Officer	nil	nil	55,000	10,000	nil	nil
Helen Findlay Vice President	nil	nil	55,000	35,000	nil	nil
Neil Nawaz Director, Finance & Legal Affairs	nil	nil	25,000	20,000	nil	nil

Directors' and Officers' Liability Insurance

The Company maintains directors' and officers' liability insurance with a cumulative policy limit of $3,000,000 each policy year subject to a deductible of $25,000 per occurrence. Under this coverage, the Company will be reimbursed for payments made under corporate indemnity provisions on behalf of all of its directors and officers, and individual directors and officers will be reimbursed for losses arising during the performance of their duties. Protection is provided to directors and officers for acts, errors and omissions done or committed during the course of their duties; excluded from coverage are illegal acts and those acts which result in personal profit at the expense of shareholders. The annual cost of this insurance coverage is $10,641, all of which was paid by the Company.

Pension Plans

The Company does not have a pension plan for its senior executives.

Indebtedness of Directors, Officers and Employees

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.

PLAN OF DISTRIBUTION

Pursuant to an agreement (the **"Agency Agreement"**) dated ?, 2003 between the Company and the Agents, the Agents have agreed to act as exclusive agents of the Company to offer for sale to the public, on a best efforts basis, up to a maximum of ? Units offered hereby. The Units are being offered to the public at a price of $? per Unit. The fee payable to the Agents is $? per Unit, being an aggregate of $? if the Offering is fully subscribed. As additional consideration for their services under the Offering, the Company has undertaken to issue an option in respect of 10% of the Units sold under the Offering exercisable at a price of $? per Unit at any time on or before ?, 2005 (the **"Compensation Options"**). The Compensation Options are qualified by this Prospectus. The Company has agreed to pay to the Agents an amount equal to 3% of the gross proceeds received by the Company from the exercise of the Warrants as and when they are received.

Under the Agency Agreement, the Company has granted the Agents an option exercisable prior to the third business day prior to the closing to increase the number of Units issued hereby by 10% on the same terms as set forth herein. This prospectus also qualifies any additional Units issued upon the exercise of the Over-Allotment Option.

The Agents have agreed to use their best efforts to secure subscriptions for the 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 Agents under the 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.

Funds received from the sale of the Units offered hereunder will be deposited with the Agents and will not be released until an aggregate of at least $• has been deposited with the Agents. The Minimum Offering must be raised by the Closing Date, or such other time as may be authorized by the executive directors of the Commissions and agreed to by the Agents, failing which the Agents will remit the funds collected to the original subscribers without interest or deduction.

The offering price of the Units was determined by negotiations among the Company and the Agents.

It is expected that the closing of the Offering will take place on or before ?, 2003, but in any event not later than 90 days following the issuance of a receipt for the (final) prospectus.

LEGAL PROCEEDINGS

As of the date hereof, the Company is not a party to nor has pending or threatened against it any legal, regulatory or arbitration proceedings which the Company believes would have a significant effect on its financial position.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, senior officer or other insider of the Company, or any associate or affiliate of any thereof, has or had any material interest in any transaction within the past three years or in any proposed transaction that has materially affected or will materially affect the Company.

RISK FACTORS

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

Development Stage Company. 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 (other than licenses for which the Company receives licensing fees) and does not expect to have any available for several years, if at all. ARIUS has less than four years of 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 early growth stages of a business enterprise as well as with the development and marketing of new technologies. Due to the fact that it has a limited 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 conducted 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.

Dependence on Key Personnel. The Company's research and development program is overseen by Dr. David S. Young. Since the loss of Dr. Young would adversely affect the business of ARIUS, the Company holds a "key-man" life insurance policy on Dr. Young in the amount of $5,000,000. 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.

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.

Liquidity and Capital Requirements. ARIUS will require substantial additional funds 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 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. Should ARIUS fail to secure the necessary capital, it would eventually be forced to terminate its R&D program and suspend operations.

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 defend current patents, obtain further patents, protect its trade secrets and operate without infringing the exclusive rights of third parties. Although ARIUS intends to file further patent applications in Canada, the United States and other jurisdictions, there is no guarantee that it will obtain such 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 licenses under patents or other exclusive rights from third parties. There is no guarantee that any license 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 Canada, 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 Canadian HPFB, the U.S. 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.

Lack of Revenue. To date, ARIUS has generated only marginal 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 holds commercial general liability insurance, there can be no assurance that such insurance will be sufficient to cover all claims.

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.

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 non-competitive. 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 HPFB, FDA and other regulatory approvals. Accordingly, ARIUS' competitors may succeed in commercializing their products first.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Blake, Cassels & Graydon LLP (**"Counsel"**), the following is an accurate general summary of the principal Canadian federal income tax considerations generally applicable to holders of Units who acquire such Units pursuant to the Offering and who, for purposes of the *Income Tax Act* (Canada) (the **"Act"**) and at all relevant times, are resident in Canada, hold Common Shares and Warrants as capital property, deal at arm's length with the Company and are not affiliated with the Company. This summary does not apply to a holder that is a "financial institution" or "specified financial institution" for purposes of the Act. Common Shares and Warrants will generally constitute capital property to a holder thereof, provided that the holder does not hold such securities in the course of carrying on a business of trading or dealing in securities or otherwise as part of a business of buying and selling securities and has not acquired such securities in a transaction or transactions considered to be an adventure in the nature of trade. Depending on a holder's particular circumstances, Common Shares may be deemed to be capital property for purposes of the Act where the election in subsection 39(4) of the Act has been made by a Canadian resident holder eligible to make such an election.

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 Canada Customs and Revenue Agency's (the "**CCRA**'s") administrative policies and assessing practices published prior to the date hereof. 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 summary is of a general nature only and is not intended to be relied on as legal or tax advice to any particular holder or prospective holder of Units. Consequently, holders and prospective holders of Units are urged to seek independent tax advice in respect of the tax consequences to them of subscribing for the Units.

Allocation of Purchase Price

It is necessary to allocate the total purchase price for a Unit on a reasonable basis between the Common Share and the • Warrant so acquired, and the amount so allocated to such Common Share and to such Warrant will constitute the cost to a holder of the particular security for purposes of the Act. The Company intends to allocate $• of the purchase price to each Common Share and $• of the purchase price to each • Warrant. While the Company considers this allocation to be reasonable, it is not binding on the CCRA.

Warrants

Exercise of Warrants

The exercise of a Warrant will not be a disposition for the purposes of the Act, with the result that no gain or loss will be realized by a holder upon the exercise of a Warrant. A holder's aggregate cost of a Common Share acquired on the exercise of a Warrant will be the aggregate of the adjusted cost base to the holder of the Warrant so exercised and the exercise price paid for such Common Share under the terms of the Warrant. The cost of any Common Share acquired on the exercise of a Warrant by a holder will be averaged with the adjusted cost base to the holder of any other Common Shares held by the holder as capital property at that time to determine the adjusted cost base of the Common Share so acquired.

Disposition or Redemption of Warrants

A holder who disposes of a Warrant by way of sale or by way of redemption by the Company will realize a capital gain (or capital loss) in the amount by which the proceeds of disposition or redemption, as the case may be, net of any reasonable costs of disposition or redemption, exceed (or are less than) the adjusted cost base to the holder of the Warrant disposed of. The tax treatment of capital gains and losses is discussed in greater detail below under "Treatment of Capital Gains and Capital Losses".

Expiry of Warrants

The expiry of any unexercised Warrant will constitute a disposition of that Warrant for nil proceeds of disposition, resulting in the holder realizing a capital loss equal to the adjusted cost base to the holder of the expired Warrant. The tax treatment of capital losses is discussed in greater detail below under "Treatment of Capital Gains and Capital Losses".

Dividends

Dividends (including deemed dividends) received on Common Shares will be included in computing the holder's income. In the case of an individual holder, such dividends will generally be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations. In the case of a holder that is a corporation, such dividends will generally be deductible in computing the corporation's taxable income. A holder of a Common Share that is a "private corporation", as defined in the Act, or any other corporation resident in Canada and controlled by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) will generally be liable to pay a refundable tax at the rate of 33-1/3% under Part IV of the Act on dividends received (or deemed received) on Common Shares to the extent such dividends are deductible in computing its taxable income.

Disposition of Common Shares

A holder who disposes of a Common Share will realize a capital gain (or capital loss) in the amount by which the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the holder of the Common Share disposed of. The tax treatment of capital gains and losses is discussed in greater detail below under "Treatment of Capital Gains and Capital Losses".

Treatment of Capital Gains and Capital Losses

A holder will be required to include one-half of the amount of any capital gain (a "taxable capital gain") in income, and will be required to deduct one-half of the amount of any capital loss (an "allowable capital loss") against taxable capital gains realized by the holder in the year of disposition. Allowable capital losses not deducted in the taxation year in which they are realized may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against taxable capital gains realized in such years, to the extent and under the circumstances specified in the Act. A capital gain realized by a holder who is an individual (including certain trusts) may give rise to alternative minimum tax. A "Canadian-controlled private corporation" (as defined in the Act) may be liable to an additional 6-2/3% refundable tax under the Act on its "aggregate investment income" for the year, which will include an amount in respect of taxable capital gains.

The amount of any capital loss realized on the disposition or deemed disposition of a Common Share by a holder that is a corporation may be reduced by the amount of dividends received or deemed to have been received by it on the Common Share to the extent and in the circumstances prescribed by the Act. Similar rules may apply where a holder that is a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares or where Common Shares are owned by a partnership or trust of which a partnership or trust is a member or beneficiary. Holders to whom these rules may be relevant should consult their own tax advisors.

Eligibility for Investment

The following summary is 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 Units pursuant to this Offering.

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 and the Warrants, when issued, will be "qualified investments" for purposes of the Act for an RRSP, RRIF or RESP, provided that, in the case of Common Shares, immediately after the time the trust governed by an RRSP, RRIF or RESP acquires the Common Shares, or, in the case of Warrants, at all times during the period between the time that the trust governed by an RRSP, RRIF or RESP acquired the Warrant and the time it was exercised, each person who is an annuitant, beneficiary, or subscriber under the RRSP, RRIF or RESP is not a "connected shareholder" of the Company for purposes of the Regulations under the Act. Changes in the Company's business or ownership during such time as Warrants are held by an RRSP, RRIF or RESP could disqualify the Warrants as qualified investments for such plans. Although no such changes in business or ownership are currently anticipated by the Company, no assurance in this regard can be given. Persons planning to hold Warrants through a trust governed by an RRSP, RRIF or RESP should consult their own tax advisors in this regard.

A person will generally not be a "connected shareholder" if neither the person, nor any person with whom that 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 person will be deemed to own 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 all shares that he or she or any such non-arm's length person has an absolute or contingent right to acquire either immediately or in the future. A particular person will also be deemed to own his or her pro rata portion of shares and absolute or contingent rights to acquire shares owned by a partnership or trust of which he or she is a partner or beneficiary (including a trust governed by an RRSP, RRIF or RESP under which the person is an annuitant, beneficiary or subscriber). Furthermore, a particular person will be deemed to own all shares or rights to acquire shares held by a discretionary trust of which the person is a beneficiary.

As well, a person who deals at arm's length with the Company will not be a "connected shareholder" even if the "less than 10% share ownership" test described above is not met if the aggregate cost amount of all shares and rights to acquire shares of the Company and of any corporations related to the Company owned by the particular person, a non-arm's length person, such persons together or deemed to be owned by the particular person or such non-arm's length person as beneficiary of a trust or as a member of a partnership (as described above) is less than $25,000 at that time. Prospective investors should consult their tax advisors for advice as to whether they will be connected shareholders of the Company, based on their particular circumstances.

Unless and until the Company becomes a "public corporation" for purposes of the Act, the Common Shares and the 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".

A trust that is governed by an RRSP (or RRIF) will be required to pay tax on any income and capital gains realized in respect of the Common Shares or Warrants if the trust holds (or acquires, respectively) the Common Shares or Warrants, as the case may be, and they are not qualified investments. In addition, if a trust governed by an RRSP or RRIF acquires Common Shares or Warrants at a time when the Common Shares or Warrants, as the case may be, are not qualified investments, the fair market value of such shares or warrants at the time of acquisition will be included in the income of the annuitant under the RRSP or RRIF. Where Common Shares or Warrants are acquired by a trust governed by a DPSP at a time when the Common Shares or Warrants are not qualified investments, the trust will be liable for a tax equal to the fair market value of such Common Shares or Warrants, as the case may be, at that time. The registration of an RESP becomes revocable if a trust governed by the RESP acquires Common Shares or Warrants at a time when such Common Shares or Warrants, as the case may be, are not qualified investments, or holds such Common Shares or Warrants at a time when such shares or warrants cease to be qualified investments and fails to dispose of such investment within 60 days of that time. In addition, a Plan Trust may be subject to a penalty tax if it holds Common Shares or Warrants and such shares or warrants are non-qualified investments. **Persons acquiring or holding Common Shares or 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 and Warrants, when issued, will not be "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 Units through a Plan Trust or otherwise.**

LEGAL MATTERS

Certain legal matters relating to the issue and sale of the Units offered hereunder will be passed upon on behalf of the Company by Blake, Cassels & Graydon LLP. The partners and associates of Blake, Cassels & Graydon LLP own, as a group, directly or indirectly in the aggregate less than 1% of the outstanding Common Shares.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Company are KPMG LLP, Chartered Accountants, 4100 Yonge Street, Suite 200, Toronto, Ontario, M2P 2H3.

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

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 in the two years prior to the date hereof are the following:

1. the Agency Agreement referred to under *"Plan of Distribution"*; and

2. the Warrant Indenture referred to under *"Description of Securities Distributed".*

Copies of these agreements will be available for inspection at the registered office of the Company at 55 York Street, 16th Floor, Toronto, Ontario during normal business hours during the course of distribution of securities under this prospectus and for a period of 30 days thereafter.

PURCHASER'S STATUTORY RIGHTS

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

AUDITORS' REPORT

To the Board of Directors of Arius Research Inc.

We have audited the balance sheets of Arius Research Inc. (a Development Stage Company) as at November 30, 2002 and 2001 and the statements of operations and deficit and cash flows for the three years ended November 30, 2002. 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 audits.

We conducted our audits 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, 2002 and 2001 and the results of its operations and its cash flows for the three years ended November 30, 2002 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Toronto, Canada

February 4, 2003, except
as to note 13 which is
as of _____, 2003

ARIUS RESEARCH INC.

(A DEVELOPMENT STAGE COMPANY)

Balance Sheets

	May 31, 2003	November 30, 2002	2001
	(Unaudited)		
Assets			
Current assets:			
Cash	$ 669,636	$ 1,421,182	$ 4,059,059
Restricted cash (note 3)	213,995	–	–
Refundable tax credits (note 4)	830,993	1,376,479	1,226,571
Prepaid expenses and other receivables	18,966	12,437	76,333
	1,733,590	2,810,098	5,361,963
Restricted cash (note 3)	–	213,995	213,995
Property and equipment (note 5)	561,729	611,831	720,908
	$ 2,295,319	$ 3,635,924	$ 6,296,866
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$ 158,047	$ 312,360	$ 476,640
Current portion of long-term debt (note 6)	3,293	8,231	8,085
Unearned revenue (note 7)	–	46,527	–
	161,340	367,118	484,725
Long-term debt (note 6)	–	–	7,315
Shareholders' equity:			
Share capital (note 8):			
Common shares	10,031,262	10,019,262	10,016,242
Warrants	–	12,000	15,020
Deficit	(7,897,283)	(6,762,456)	(4,226,436)
	2,133,979	3,268,806	5,804,826
Going concern (note 1)			
Commitments and contingencies (note 9)			
Subsequent events (note 13)			
	$ 2,295,319	$ 3,635,924	$ 6,296,866

See accompanying notes to financial statements.

On behalf of the Board:

(Signed) *"Dan Andersen"* Director

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

ARIUS RESEARCH INC.

(A DEVELOPMENT STAGE COMPANY)

Statements of Operations and Deficit

	Period from incorporation on August 11, 1999 to May 31, 2003	Six months ended May 31,		Years ended November 30,		
		2003	2002	2002	2001	2000
	(Unaudited)	(Unaudited)				
Revenue:						
Licensing fees	$ 46,527	$ 46,527	$ –	$ –	$ –	$ –
Expenses:						
Research and development (note 2(a))	7,259,947	1,094,147	988,959	2,160,822	2,763,171	816,213
Tax credits	(1,960,029)	(272,920)	(246,622)	(529,124)	(924,985)	(203,000)
General and administrative	3,172,100	404,300	386,460	963,562	945,172	827,762
	8,472,018	1,225,527	1,128,797	2,595,260	2,783,358	1,440,975
Loss before the undernoted	(8,425,491)	(1,179,000)	(1,128,797)	(2,595,260)	(2,783,358)	(1,440,975)
Interest income	528,208	44,173	41,798	59,240	167,653	250,167
Loss for the period	(7,897,283)	(1,134,827)	(1,086,999)	(2,536,020)	(2,615,705)	(1,190,808)
Deficit, beginning of period	–	(6,762,456)	(4,226,437)	(4,226,436)	(1,610,731)	(419,923)
Deficit, end of period	$ (7,897,283)	$ (7,897,283)	$ (5,313,436)	$ (6,762,456)	$ (4,226,436)	$ (1,610,731)
Loss per share:						
Basic and diluted	$ –	$ (0.23)	$ (0.22)	$ (0.52)	$ (0.63)	$ (0.34)
Weighted average common shares outstanding	–	4,891,008	4,891,008	4,891,008	4,175,055	3,495,491

See accompanying notes to financial statements.

ARIUS RESEARCH INC.

(A DEVELOPMENT STAGE COMPANY)

Statements of Cash Flows

	Period from incorporation on August 11, 1999 to May 31, 2003	Six months ended May 31,		Years ended November 30,		
		2003	2002	2002	2001	2000
	(Unaudited)	(Unaudited)				
Cash provided by (used in):						
Operating activities:						
Loss for the period	$ (7,897,283)	$ (1,134,827)	$ (1,086,999)	$ (2,536,020)	$ (2,615,705)	$ (1,190,808)
Items not involving cash:						
Write-off of investment	20,000	–	–	1	–	19,999
Services received for common shares	400,024		–	–	–	24
Amortization	333,797	57,521	66,519	133,842	107,215	35,219
Write-off of leasehold improvements	86,349	–	–	–	15,906	70,443
	(7,057,113)	(1,077,306)	(1,020,480)	(2,402,177)	(2,492,584)	(1,065,123)
Change in non-cash operating working capital:						
Refundable tax credits	(830,993)	545,486	52,786	(149,908)	(916,024)	(270,547)
Prepaid expenses and other receivables	(18,966)	(6,529)	26,477	63,896	19,708	64,256
Accounts payable and accrued liabilities and unearned revenue	158,047	(200,840)	(327,648)	(117,753)	266,019	2,208
	(7,749,025)	(739,189)	(1,268,865)	(2,605,942)	(3,122,881)	(1,269,206)
Financing activities:						
Issue of shares and warrants	9,631,237	–	–	–	2,632,712	5,522,525
Repayment of long-term debt	3,293	(4,938)	(2,231)	(7,169)	15,400	–
	9,634,530	(4,938)	(2,231)	(7,169)	2,648,112	5,522,525
Investing activities:						
Long-term investment	(20,000)	–		–	–	(20,000)
Cash held in term deposit	(213,995)	–	–	–	(213,995)	–
Acquisition of property and equipment	(981,874)	(7,419)	(6,418)	(24,766)	(597,826)	(326,968)
	(1,215,869)	(7,419)	(6,418)	(24,766)	(811,821)	(346,968)
Increase (decrease) in cash	669,636	(751,546)	(1,277,514)	(2,637,877)	(1,286,590)	3,906,351
Cash, beginning of period	–	1,421,182	4,059,059	4,059,059	5,345,649	1,439,298
Cash, end of period	$ 669,636	$ 669,636	$ 2,781,545	$ 1,421,182	$ 4,059,059	$ 5,345,649

ARIUS RESEARCH INC.

(A DEVELOPMENT STAGE COMPANY)

Statements of Cash Flows (continued)

	Period from incorporation on August 11, 1999 to May 31, 2003	Six months ended May 31,		Years ended November 30,		
		2003	2002	2002	2001	2000
	(Unaudited)	(Unaudited)				
Supplemental cash flow information:						
Interest paid	$ 8,573	$ 19	$ –	$ 4,849	$ 2,167	$ 1,538
Interest received	521,133	44,173	41,798	59,240	167,653	250,167
Supplemental disclosure of non-cash financing and investing activities:						
Shares issued for technology	2	–	–	–	–	–
Shares issued for services	400,024	–	–	–	–	24

See accompanying notes to financial statements.

Arius Research Inc. (the "Company") was incorporated on August 11, 1999 under the Business Corporations Act (Ontario). The Company 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 tumours for individual cancer patients.

1. Going concern:

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will realize the carrying value of its assets and satisfy its obligations and commitments as they become due in the normal course of operations.

There is significant doubt about the appropriateness of the use of the going concern assumption because the Company has experienced significant losses and negative cash flows from operations since its incorporation. In addition, the Company's cash resources are not sufficient to sustain the current level of operations through to its year end.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used.

Management expects to raise funds in the capital markets during 2003 and will also finance the Company's operations in part through fees earned pursuant to potential licensing agreements with other biopharmaceutical companies for anti-cancer antibodies from the Company's functional antibody library.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the successful completion of the actions taken or planned, some of which are described above, which management believes will mitigate the adverse conditions and events which raise doubt about the validity of going concern assumption used in preparing these financial statements. There is no certainty that these and other strategies will be sufficient to permit the Company to continue beyond May 31, 2004.

2. Significant accounting policies:

(a) Research and development:

Research costs, including the cost of patent applications, are expensed as incurred. Development costs are expensed as incurred unless such costs meet the criteria for deferral and amortization under Canadian generally accepted accounting principles. The Company has not deferred any development costs.

(b) Tax credits:

Tax credits earned, based on scientific research and development expenditures, are accounted for using the cost reduction approach, that is as a reduction of the related current year expenses or a reduction of the related property and equipment when the Company has reasonable assurance that the tax credits will be utilized.

(c) Property and equipment:

Property and equipment are stated at cost less related investment tax credits ("ITCs") and are amortized as follows:

Asset	Basis	Rate
Laboratory and office equipment	Declining basis	20%
Computer hardware and software	Declining basis	33%
Leasehold improvements	Straight line	Term of lease

The Company regularly reviews the carrying values of its property and equipment. If the carrying value of its property and equipment exceeds the amount recoverable, a write-down is charged to the statements of operations and deficit.

2. Significant accounting policies (continued):

(d) Income taxes:

Income taxes are accounted for under the asset and liability method of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3465 ("Section 3465") and future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Section 3465, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

(e) Stock-based compensation plan:

The Company has a stock-based compensation plan as described in note 8. No compensation expense is recognized when stock options are issued to eligible persons. Any consideration paid on the exercise of stock options is credited to share capital.

Effective December 1, 2002, the Company prospectively adopted the new accounting recommendations published by the CICA relating to stock-based compensation and other stock-based payments made in exchange for goods and services. The standard requires that a fair value-based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees. Consideration paid by employees and non-employees on the exercise of stock options is recorded as share capital.

2. Significant accounting policies (continued):

(f) 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 revenue and expenses during the period. Actual results could differ from those estimates.

3. Restricted cash:

Under the terms of the lease, the Company provided a letter of credit to its landlord pledging a term deposit in the principal amount of $213,995 as collateral for a period of three years. After the three years have elapsed on March 1, 2004, unrestricted access to these funds will revert to the Company.

4. Tax credits and income taxes:

(a) Tax credits:

The Company's current and capital expenditures are eligible as scientific research and experimental development ("SR&ED") expenditures. The Company can earn federal 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 federal credits earned at the 35% rate. A portion of the tax credits is refundable in cash to the Company, with the remainder available as an offset against future taxes payable.

At May 31, 2003, the Company has a balance of approximately $831,000 (November 30, 2002 - $1,376,000; November 30, 2001 - $1,226,000) of refundable tax credits. The amount of refundable tax credits ultimately received by the Company is subject to review by Canada Customs and Revenue Agency and the Ontario Ministry of Finance of the technical and financial aspects of the tax credit claims.

4. Tax credits and income taxes (continued):

Under the Income Tax Act of Canada, certain expenditures are classified as SR&ED expenditures and for tax purposes are grouped into a pool, which is 100% deductible in the year incurred. This SR&ED expenditure pool can also be carried forward indefinitely and deducted in full in any subsequent year.

The balance of the SR&ED expenditure pool at May 31, 2003 is approximately $5,098,000 (November 30, 2002 - $4,335,000; November 30, 2001 - $3,275,000).

At May 31, 2003, the Company has also earned ITCs on SR&ED expenditures, which will expire as follows:

2009	$ 7,035
2010	56,266
2011	104,128
2012	15,994
2013	1,470
	$ 184,893

4. Tax credits and income taxes (continued):

(b) Income taxes:

The tax effect of temporary differences that give rise to significant components of the Company's future tax assets and future tax liabilities are presented below:

	May 31, 2003	November 30, 2002	November 30, 2001
	(Unaudited)		
Future tax assets:			
Non-capital losses	$ 637,000	$ 692,000	$ 384,925
Deductible share issue costs	49,000	66,000	100,132
SR&ED expenditure pool	975,000	829,000	686,521
Other	–	2,000	1,963
	1,661,000	1,589,000	1,173,541
Less valuation allowance	1,603,000	1,522,000	1,096,776
	58,000	67,000	76,765
Future tax liability:			
Excess of book value of property and equipment over tax value	58,000	67,000	76,765
Net future tax asset	$ –	$ –	$ –

The Company has losses available to reduce future taxable income, the benefit of which will be recognized in the accounts when it is more likely than not it will be realized. These tax losses expire as follows:

2006	$ 180,000
2007	644,000
2008	1,596,000
2009	726,000
2010	186,000
	$ 3,332,000

5. Property and equipment:

	May 31, 2003	November 30, 2002	November 30, 2001
	(Unaudited)		
Laboratory and office equipment	$ 612,051	$ 610,837	$ 591,798
Computer hardware and software	92,777	86,570	80,844
Leasehold improvements	190,700	190,700	190,700
	895,528	888,107	863,342
Less accumulated amortization	333,799	276,276	142,434
Net book value	$ 561,729	$ 611,831	$ 720,908

Property and equipment are net of tax credits of $214,679 (2001 - $210,001) for the year ended November 30, 2002.

6. Long-term debt:

A financing arrangement entered into by the Company for purchase of research and development equipment consists of principal repayments of $8,231 in 2003 and bears interest at 9%. Interest expense of $997 has been charged to income for the year ended November 30, 2002 (2001 - $145).

7. Unearned revenue:

In October 2002, the Company entered into an agreement with Protein Design Labs, Inc. ("PDL") of Fremont, California for two of the Company's anti-cancer antibodies. Under the terms of the agreement, the Company and PDL will evaluate the antibodies during a six-month collaboration period, during which PDL may enter into licensing agreement with the Company for one or both of the antibodies for up-front fees of U.S. $200,000 each and successive milestone payments totalling U.S. $6.8 million each. In addition, the Company will receive a royalty of 5% on any net sales of marketed products. On signing the agreement, PDL advanced the Company research funding in the amount of $46,527 (U.S. $30,000), creditable against any future licensing payments. The research funding will be recognized as revenue when research services are provided to PDL.

7. Unearned revenue (continued):

During the six months ended May 31, 2003, the services to PDL were completed, and PDL did not exercise its option to enter into a licensing agreement. The research funding was recognized as license fees in revenues.

8. Share capital:

(a) The Company's authorized and issued share capital consists of:

	May 31, 2003	November 30, 2002	2001
	(Unaudited)		
Authorized:			
Unlimited preference shares, non-voting, issuable in series			
Unlimited common shares, voting, without par value			
Issued:			
4,891,008 common shares (November 30, 2002 and 2001 - 4,891,008)	$ 10,031,262	$ 10,019,262	$ 10,016,242

8. Share capital (continued):

Details of share capital and warrants are as follows:

	Share capital		Class A Special warrants		Class A warrants		Class B warrants	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Issued on incorporation (i)	1	$ 1	–	$ –	–	$ –	–	$ –
Issued for cash (ii)	–	–	850,000	1,474,000	–	–	–	–
Issued for services (iii), (iv)	400,000	400,000	–	–	2,000,000	2,000	–	–
Issued for technology (iv)	1,599,999	–	–	–	–	–	–	–
Balance, November 30, 1999	2,000,000	400,001	850,000	1,474,000	2,000,000	2,000	–	–
Issued for cash (v)	1,200,000	5,988,000	–	–	–	–	1,200,000	12,000
Issued for services (v)	8	24	–	–	8	–	8	–
Conversion of Class A Special warrants (ii)	850,000	1,473,150	(850,000)	(1,474,000)	850,000	850	–	–
Costs of issuance	–	(477,475)	–	–	–	–	–	–
Balance, November 30, 2000	4,050,008	7,383,700	–	–	2,850,008	2,850	1,200,008	12,000
Issued for cash (vi)	756,000	2,646,000	–	–	–	–	–	–
Exercise of underwriters' options (vii)	85,000	169,830	–	–	85,000	170	–	–
Costs of issuance	–	(183,288)	–	–	–	–	–	–
Balance, November 30, 2001	4,891,008	10,016,242	–	–	2,935,008	3,020	1,200,008	12,000
Warrants expired unexercised (viii)	–	3,020	–	–	(2,935,008)	(3,020)	–	–
Balance, November 30, 2002	4,891,008	10,019,262	–	–	–	–	1,200,008	12,000
Warrants expired unexercised (ix)	–	12,000	–	–	–	–	(1,200,008)	(12,000)
Balance, May 31, 2003 (unaudited)	4,891,008	$10,031,262	–	$ –	–	$ –	–	$ –

8. Share capital (continued):

(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 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 for Special warrants for proceeds of $1,474,000, net of issuance costs of $226,000. Each Special warrant entitled the holder thereof to receive, upon exercise and without additional payment, one common share and one Class A Share Purchase warrant of the Company.

Subject to adjustment, the Special warrants were exercisable at any time and were automatically exercised on March 7, 2000 following the issuance of a receipt for the final prospectus qualifying the common shares and Class A warrants to be issued upon exercise of the Special warrants.

(iii) On October 7, 1999, the Company issued 400,000 common shares to SynX Pharma Inc. (formerly Skye Pharmatech Inc.) ("SynX") in consideration for research services and reagents provided by SynX to the Company. This non-monetary transaction as been recorded in the financial statements at $400,000, representing the estimated value. The Company also issued to SynX 400,000 Class A warrants with a carrying value of $0.001 each.

(iv) On October 7, 1999, the Company issued 1,599,999 common shares and 1,600,000 Class A warrants 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 and the warrants have a carrying value of $0.001 each. 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 nil, representing the stated value of these shares for accounting purposes.

8. Share capital (continued):

(v) During the year ended November 30, 2000, 1,200,008 Class B share warrants were issued, having a stated value of $0.01 each. Each Class B share warrant granted entitled the holder 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, 2002. 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.

(vi) On August 28, 2001, the Company announced a rights offering under which shareholders of record received the right to purchase at a price of $3.50 an additional share of the Company for each four common shares held. On the closing of the offering on October 4, 2001, rights were exercised for a total of 756,000 common shares for gross proceeds of $2,646,000.

In connection with the Company's rights offering, the Company has granted to the underwriter for services rendered, non-assignable options to purchase 75,600 shares exercisable at $3.50 on or before October 4, 2003, which entitles the holder to acquire one common share per option.

(vii) In 2000, the Company granted to the underwriter for services rendered, non-assignable options to purchase: (a) 85,000 Class A Units exercisable at $2.00 per Class A Unit on or before October 31, 2001; and (b) 120,000 Class B Units exercisable at $5.00 per Unit on or before March 31, 2002. Class A and Class B Units entitle the holder to one common share and one Class A or Class B warrant, respectively. On October 31, 2001, 85,000 Class A Units were exercised. At November 30, 2002, the option to purchase Class B Units expired unexercised.

8. Share capital (continued):

(viii) On October 31, 2002, 2,935,008 Class A warrants expired unexercised. These 2,935,008 Class A warrants were issued with a stated value of $0.01 each. Each Class A warrant granted entitled the holder 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. An amount of $3,020, representing the proceeds received on the Class A warrants, has been transferred to share capital.

(ix) At November 30, 2002, there are 1,200,008 Class B share warrants issued and outstanding, having a stated value of $0.01 each. These Class B share warrants were issued in connection with the Company's initial public offering in 2000. Each Class B share warrant entitles the holder 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. 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. The Company agreed to pay the underwriter an amount equal to 4% of the gross proceeds received by the Company from the exercise of the Class B warrants when they are exercised. As at March 31, 2003, the Class B warrants, as discussed above, expired unexercised.

8. Share capital (continued):

(b) Stock option plan:

On December 8, 1999, the Company established a stock option plan providing for the issuance of options to eligible persons, including directors, officers, employees and consultants of the Company, to acquire up to 800,000 common shares of the Company.

	May 31, 2003		November 30, 2002		2001	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
	(Unaudited)					
Balance, beginning of period	523,500	$ 2.46	574,000	$ 2.58	467,000	$ 2.26
Granted	16,000	1.05	110,000	3.25	232,000	2.86
Expired or cancelled	(219,000)	2.08	(160,500)	2.72	(125,000)	4.73
Balance, end of period	320,500	2.64	523,500	2.46	574,000	2.58
Exercisable, end of period	168,833	$ 2.61	323,834	$ 2.25	252,000	$ 2.20

	November 30, 2002		
Exercise price	Number of options outstanding	Weighted average remaining life (years)	Number of options exercisable
$1.50	4,000	4.60	–
$2.00	312,000	1.17	236,001
$2.75	121,500	2.96	74,500
$3.25	30,000	4.10	–
$4.00	56,000	3.47	13,333
	523,500		323,834

8. Share capital (continued):

The exercise prices of options must at least equal the quoted market value of the underlying common shares on the date of the grant. Each option granted allows the holder to purchase one common share. As at November 30, 2002, these options generally vest over a maximum period of three years and expire over various dates to 2007.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. For the six months ended May 31, 2003, the weighted average assumptions were: dividend yield of nil; expected volatility of 120%; risk-free interest rate of 4.5%; and expected life of five years. The estimated fair value of the options issued during the period was $0.88 per share.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the vesting period. Had the fair value-based method been applied to all stock options granted after December 1, 2002, the Company's pro forma loss would have been $1,148,907 or $0.23 per common share for the six months ended May 31, 2003.

9. Commitments and contingencies:

(a) Research commitments:

Pursuant to a license agreement to obtain technology for the humanization of monoclonal antibodies, the Company has agreed to make payments totalling $235,500 contingent upon the achievement of certain milestones. The agreement provides for certain royalty and other payments to be made, including certain minimum royalty payments, upon the commercial launch of the first product or on the net sales revenue of the products that employ or utilize the technology under the terms of the agreement. The Company is under no obligation to pursue these milestones and may terminate the license agreement at any time without penalty.

9. Commitments and contingencies (continued):

(b) Operating leases:

At November 30, 2002, the Company is obligated to pay the following minimum lease payments in respect of its premises and equipment operating leases:

2003	$ 238,725
2004	238,725
2005	238,954
2006	223,459
2007 and thereafter	989,702

(c) Legal proceedings:

The Company is currently involved in litigation with two former executives of the Company who have filed separate lawsuits claiming damages for wrongful dismissal. The Company is defending these claims and believes they are without merit. The Company is not involved in any other material legal proceedings.

10. Related party transaction:

The Company has transacted business with entities that are related to shareholders or members of the Company's Board of Directors. These transactions are recorded at exchange amounts and relate to purchases of services of $28,170 (2001 - $22,455) for the year ended November 30, 2002 and $14,000 for the six months ended May 31, 2003.

In addition, the Company paid management fees of $203,333 (2001 - $158,520) to a company controlled by Dr. David Young, the President and Chief Scientific Officer, for the year ended November 30, 2002 and $80,000 for the six months ended May 31, 2003 (May 31, 2002 - $79,323).

11. Fair values of financial instruments:

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

12. Research and development project:

The Company has undertaken the following significant research and development project:

Functional anti-cancer antibodies:

The Company is engaged in the discovery and development of functional cancer-killing monoclonal antibodies. Through its proprietary antibody generation and screening technologies, the Company has established a library of over 130 functional antibodies against breast, colorectal, lung and prostate cancer, as well as melanoma. Antibodies from the library may be further developed through additional in vitro and in vivo testing, optimization, humanization, manufacturing and, eventually, human clinical trials. Total project expenditures (net of tax credits) are $1,631,698 for the year ended November 30, 2002 and $5,299,918 since inception to May 31, 2003.

13. Subsequent events:

(a) On July 24, 2003, the Company entered into an agency agreement to raise funds pursuant to an offering of securities on a best efforts basis.

Pursuant to a prospectus dated _____, 2003, the Company is offering _____ units issuable at a price of $_____ per unit for proceeds of $_____, net of agent's commission of 7% and other expenses of the offering. Each unit consists of one common share and _____ share purchase warrants of the Company. Each warrant will entitle the holder to purchase one common share at a price of $_____, subject to adjustment in certain events, at any time on or before _____. The 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 Company's common shares, over a period of 20 consecutive business days ending not more than five trading days prior to such date, has equalled or exceeded $ _____ per share, subject to adjustment in certain events.

The Company has also granted to the agent options to purchase units equal to 10% of the units sold in the offering at an exercise price of $_____ per unit at any time on or before _____, 2005.

The Company has also agreed to pay the agent an amount equal to 3% of the proceeds received by the Company on the exercise of any of the warrants for common shares of the Company.

(b) On September 4, 2003, the Company arranged a demand loan of $650,000 from a Canadian chartered bank, which will be secured by refundable Scientific Research and Experimental Development and Ontario Innovation tax credits claimed by the Company and totalling approximately $910,000. The loan bears interest at a rate of prime plus 2.25% per annum and is repayable on receipt of such tax credits.

CERTIFICATE OF THE COMPANY

Dated: September 29, 2003

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by Part 9 of the *Securities Act* (British Columbia) and the rules thereunder, Part 8 of the *Securities Act* (Alberta) and the regulations thereunder and Part XV of the *Securities Act* (Ontario) and the regulations thereunder.

(Signed) *"David Young"*	(Signed) *"Neil Nawaz"*
Dr. David Young Chairman, President & Chief Scientific Officer	Neil Nawaz, Director of Finance & Legal Affairs

On behalf of the Board of Directors

(Signed) *"William T. Bodenhamer"*	(Signed) *"Diane Kalina"*
William T. Bodenhamer, Director	Diane Kalina, Director

CERTIFICATE OF AGENTS

Dated: September 29, 2003

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 9 of the *Securities Act* (British Columbia) and the rules thereunder and Part 8 of the *Securities Act* (Alberta) and the regulations thereunder and Part XV of the *Securities Act* (Ontario) and the regulations thereunder.

CANACCORD CAPITAL CORPORATION

By: (Signed) *"Doug Doiron"*
Doug Doiron

DLOUHY MERCHANT GROUP INC.

By: (Signed) *"William Murray"*
William Murray