



ARA.TO

ART Advanced Research Technologies, Inc.

May 18, 2006

Strategic Investors Buying Again

Ranking: **“Buy”**

Price at 5/17/06: **CDN \$0.75**

52 Week Range: **CDN \$0.46- \$1.00**

Price Target: **CDN \$1.00 - \$1.25**

Market Capitalization: **CDN \$37.51 m**

Enterprise Value: **CDN \$26.1 m**

Shares Outstanding: **52.1 m**

Fiscal Year End: **Dec**

Exchange: **TSX**



A second money raise fills the coffers

ARA.TO closed (5/17/06) on selling 9,333,600 common shares at a cost of CA\$0.75 per share, for a total of CA\$7,000,050. Previously on 4/25/06, ART.TO closed on a \$2.3 million investment with Oppenheimer Funds, Inc., a leading institutional shareholder. Two closings and multiple institutional investors says a lot. Q1/06 revenues were \$802,556, compared to \$1,011,350 in Q1/05 versus \$1,239,700 for Q4/05. Sales of products for Q1/06 amounted to \$802,856, compared to \$752,850 for Q1/05 and \$816,949 for Q4/05. No maintenance sales were recorded during Q1/06 and Q4/05 compared to \$258,500 in Q1/05. During Q1/06, ARA.TO sold four (4) eXplore Optix units versus six (6) in Q4/05 compared to four (4) in Q1/05. During Q1/06, ARA.TO did not upgrade any single-wavelength systems to the new multiwavelength system, compared to five (5) systems that were upgraded in Q1/05.

Looking ahead

ARA.TO researches, designs, and develops optical imaging technologies used in the detection of anomalies. The pre-clinical optical molecular imager was designed to characterize, visualize and measure cellular and molecular processes and pathways. ARA.TO's SoftScan®, a time domain optical breast imaging device, has the potential to transform how breast cancer is diagnosed and managed by detection and characterization of breast cancer. The eXplore Optix™ technology platform and SoftScan™ are partnered with and invested in by GE- Healthcare division. ARA.TO on 2/14/06 acquired the imaging technology and product assets of Alerion Biomedical, Inc., a US-based developer and manufacturer of biomarkers and contrast media for preclinical and clinical imaging devices. The transaction potentially creates a source of recurring revenue and enlarges ARA.TO's customer base. ARA.TO has significant potential, but we do not expect any major fluctuation in the stock price for the short term. We believe investors should focus on the following Q2-04/06 issues: sales execution for eXplore Optix™; ART's financial resources (now supplemented) to fund on-going development, the revenue (shipments and modifications) progress of eXplore Optix™ over Q2 – 3/06 and the timely filings for SoftScan®. We have not built the SoftScan® regulatory approval into our FY06 price target. FY06's valuation could dramatically increase to our previous guidance of \$4.50 if SoftScan® is approved.

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Please read the important
Disclosures Section
At the end of this review

Investment Thesis

We are maintaining a “BUY” based on an undervaluation of ARA.TO, which is due to the non-inclusion of the SoftScan® potential and the pending acquisition of XGEN (Xenogen) (ARA.TO’s closest comparable), by Caliper Life Sciences (CALP) in an all stock deal worth \$80 m. **Our 12 month price target is still \$1.00 - \$1.25.** However, a depressed share price, market conditions, foreign currency appreciation and margin decreases offset Q1/06 sales/revenue outlook. But the multiple financings and acquisition of revenue directed products should propel the stock as the integration is completed and Fenestra (from Alerion) revenue (marginal in Q1/06) can be recognized.

ARA.TO’s cash position of (CDN) \$12.8m (plus \$1.6m in receivables) should provide enough funds to operate into Q4/07. An FDA filing is expected by 6/06 and ARA.TO’s stock should increase substantially if the regulatory filing is made. ARA.TO’s cash position is strong and management is definitely focused on streamlining operations to reach operational goals. Although progress is being made; we feel investors should maintain their current position and probably should add to their position incrementally up to/until a regulatory filing for SoftScan® is made. **Q1/06 seems to be on track but a bit slow (Q1 is always a slow one); however, for the size of the market.**

ARA.TO closed (5/17/06); signing an underwriting agreement with a syndicate of underwriters led by Salman Partners Inc., for 9,333,600 common shares of ART at a cost of CA\$0.75 per share, for a total of CA\$7,000,050. The other members of the syndicate are Canaccord Capital Corporation and Westwind Partners Inc. **On 4/25/06, ARA.TO also closed on \$2.3 million investment with OppenheimerFunds, Inc. a leading institutional shareholder.** ARA.TO intends to use the net proceeds of the financing as working capital and to finance its corporate development.

Two closings in one quarter (Q1/06) and multiple institutional investors (new and old) says quite a lot. There seems to be recognition by the asset managers to the future but can/will the retail investors follow?

Reiterating, SoftScan® has been developed for the detection and treatment monitoring of breast cancer. It is expected to be used if results of a mammography are suspicious or inconclusive, and then for monitoring of breast cancer (adjunctive and complementary to diagnostic mammography). The system may also more accurately diagnose premenopausal women with dense breast tissue, where mammography tends to be less precise. The small percentage of breast cancers without symptoms that are not identified by mammography (10% to 20%) may be missed because of breast density, faster tumor growth rate or human error in recognizing early signs of an abnormality. About 5% to 10% of women have their mammograms interpreted as abnormal or inconclusive until further tests are done¹. Currently, a suspicious mammogram is generally followed by a biopsy, even though 80% of cases prove to be negative². ARA.TO’s SoftScan® may be able to reduce the number of painful biopsies and better diagnose and monitor breast cancer. **ARA.TO plans on filing for regulatory approval (Q2-3/06) with the FDA, Health Canada, and the European Union (CE mark) but it does take 3-6 months for the review process and determination. SoftScan® initial preclinical trial results were published in August 2005 and were positive.**

ARA.TO has significant potential, but we do not expect any major fluctuation in the stock price for the short term. The TSX listing adds liquidity but inhibits attraction to/for US institutional investors. One noticeable factor/variable is the public listing markets differential (ARA.TO’s TSX listing versus CALP’s (former XGEN) and a larger accessible institutional/retail investor in the NASDAQ population. The second factor/variable is the current structure of the GE Healthcare partnership which controls the sales cycle and revenue potential; can shipment volume and ultimately sales execution be driven in a more dramatic way?

We believe investors should focus on the following Q2-04/06 issues: sales execution for eXplore Optix™; ART’s financial resources (now supplemented) to fund on-going development, the revenue (shipments and modifications) progress of eXplore Optix™ over the next 2 – 3 quarters in 2006 and the timely filings for SoftScan®. We have not built the SoftScan® regulatory approval into our FY06 price target. **FY06’s valuation could dramatically increase to our previous guidance of \$4.50 if SoftScan® is approved.**

¹ American Cancer Society website, www.cancer.org; *Breast Cancer Facts & Figures 2005-2006*, p. 13

² *Breast Cancer Screening: Clinical Guidelines*, *Annals of Internal Medicine*, vol. 137, no. 5 (part I), 9/3/2002, p. E355-E356

Q1/06 Highlights

SoftScan® pivotal clinical trials are progressing at leading breast cancer clinics, including recently announced sites at the Princess Margaret Hospital in Toronto, the Moores Cancer Center at UCSD, and the Weissman Cancer Center at Martin Memorial Health Systems; Acquisition of imaging technology and product assets of Alerion Biomedical, Inc. completed, offering a source of recurring revenue to ART; Scientific presentations at the Breast Course, the Biomedical Optics meeting, the AMI conference, and the AACR continue to confirm the value of ART's time-domain technology.

Q1/06 revenues were \$802,556, compared to \$1,011,350 in Q1/05 versus \$1,239,700 for Q4/05. Sales of products for the quarter ended 3/31/06 amounted to \$802,856, compared to \$752,850 for Q1/05.

No maintenance sales were recorded during the Q1/06 and Q4/05, compared to \$258,500 in Q1/05. During Q1/06, ARA.TO sold four (4) eXplore Optix™ units compared to four (4) units in Q1/05. During Q1/06, ARA.TO did not upgrade any single-wavelength systems to the new multiwavelength system, compared to five (5) systems that were upgraded in Q1/05. Cost of sales for Q1/06 was \$498,038 compared to \$739,321 in Q1/05.

The gross margin for Q1/06 was 38% compared to 27% for Q1/05. The gross margin increase during Q1/06 as compared with Q1/05 was due to the fact that ARA.TO: negotiated better terms with vendors of eXplore Optix™ components due to larger volumes; performed design optimization; and last year transitioned to the new multiwavelength base system that offered the possibility to its existing customers to upgrade their base system to the new system at a preferential price. Cost of sales consisted principally of raw materials, royalties and manufacturing costs.

ARA.TO's research and development ("R&D") expenditures for Q1/06, net of investment tax credits amounted to \$1,963,772, compared to \$2,670,044 for Q1/05. The R&D expenditures consist principally of the salaries and benefits for personnel involved in R&D projects, of consultation fees paid for clinical studies, the cost associated with the preparation and conduct of the clinical studies and of the cost of prototypes. The decrease in R&D expenditures for Q1/06, compared to Q1/05, relates to the medical sector and is mainly due to the non recurring costs engaged in the first quarter of last year with the preparation of the clinical sites, the manufacturing of the SoftScan® clinical prototypes, the negotiation of the protocols, and the cost related to site selection both in Canada and in the U.S.

Selling, general, and administrative ("SG&A") expenses in Q1/06, totaled \$992,503, compared to \$872,083 for Q1/05. SG&A expenses consist principally of salaries, professional fees and other costs associated with marketing activities. The increase in SG&A expenses compared to the SG&A expenses incurred for the same period last year comes principally from investor relations activities. SG&A expenses were also engaged to support commercial activities related to the eXplore Optix product, as well as to support its overall activities.

The loss before interest and foreign exchange loss for Q1/06 was \$2,724,908 compared to \$3,326,578 for Q1/05. As a result, the net loss for Q1/06 was \$3,142,032 or \$0.07 per share versus a net loss of \$3,313,319 (\$0.08 per share) for Q4/05 compared to \$3,243,694 or \$0.08 per share for Q1/05.

ARA.TO has US\$12.8 million in cash (net of financing fees and related expenses) and US\$1.6 million in accounts receivable and investment tax credits to fund new and ongoing activities.

Valuation Analysis

We hope for increased sales in 2006 as the 3D technology for the eXplore Optix™ continues to roll out and GE further augments and penetrates the market through their distribution network. Pharmaceutical companies, biotechnology companies and academic institutions are utilizing ARA.TO's imaging technology but an increased adoption rate could be expected only as utility is recognized. Improving gross margins in the range could be expected in 2006 after management has updated all software and implemented cost-cutting strategies, which includes current negotiation of better rates with vendors and making minor engineering adjustments.

In Q1/06, ART acquired substantially all of the imaging technology and product assets of Alerion Biomedical, Inc., a US-based developer and manufacturer of biomarkers and contrast media for preclinical and clinical imaging devices for a total purchase price, including related expenses, of \$563,000 (subject to some adjustments); these assets include, in particular, the intellectual property, the accounts receivable, the Fenestra product inventory and some fixed assets. The acquisition was recorded using the purchase method, and earnings from this acquisition have been included in the financial statements since the date of acquisition. The terms of the transaction provide for a purchase price which will be subject to adjustments and to purchase price increases - in the form of earn-outs - based on the future revenue generated by the purchased assets. The purchase price was paid in cash and in common shares of ARA.TO. The Alerion Biomedical biomarker technology, acquired by ARA.TO, has potential applications for both the preclinical and clinical markets. **Recent industry reports articulate the total biomarker and radiopharmaceutical sector represents a global market in excess of US\$5.0 billion.** A distinct advantage of the biomarker technology developed by Alerion in particular the Fenestra® product line, is its application or potential application to multiple imaging modalities including CT, Optical and MRI. Initially, ARA.TO will offer its biomarker products to the preclinical market, including its installed customer base of the world's leading pharmaceutical companies and research institutions that currently use ARA.TO's eXplore Optix(tm) preclinical optical imaging system. **An added advantage inherent to the Fenestra® biomarker technology is that it enhances imaging on a user-friendly and non-radioactive basis, which is more cost effective permitting multiple scans on the same specimens over long periods of time.** The technology was developed following more than five years of research at the University of Michigan and investment of over US\$10 million in combined research and development funding. Initial customers have included leading pharmaceutical and biotech companies as well as the National Institutes of Health (NIH).

The transaction is an all stock deal which should dilute the equity of the firm by 5% or less. The synergies of this new biomarker technology to be adapted to multiple modalities could enlarge the customer base and help accelerate market acceptance by researchers and clinicians. **The transaction potentially creates a source of recurring revenue and enlarges ARA.TO's customer base.**

ARA.TO should expect exponential sales growth in 2006 and 2007 as research and development expenditures increase at major pharmaceutical companies to make up for patent expiration and weak pipelines. Profitability for ARA.TO's pharmaceutical (eXplore Optix™) division could be expected to occur in approximately 2 years.

XGEN who has been recently acquired by Caliper Life Sciences (CALP) was ARA.TO's closest comparable with an acquisition price of (US) \$80 m. Other comparables include BRKR at (US) \$485.5 m, IMDS.OB at (US) \$31.23 m and DBMI.OB at (US) \$4.85 m. ARA.TO's market capitalization is (CDN) \$37.51 m (US \$33.68 m), but the technological reference could become more specific as a few private venture based companies come on line with product sales. Both ARA.TO and XGEN's stocks suffered in 2005, mostly because of market conditions. Purchasers of ARA.TO's imaging products will need some time to recognize the payback from this unique reduction of time and streamlining of preclinical in vivo data. The recognition of XGEN's technology by Caliper Life Sciences should add a small boost to ARA.TO's stock in the near term.

SoftScan® (ARA.TO's medical division) is currently in clinical trials in the United States and Canada. The vast majority of research and development expenses are geared toward the clinical trials for SoftScan®. R&D expenses are expected to increase until the trial is completed. **SoftScan® has the potential to add significant shareholder value to ARA.TO in the future, but we recommend waiting for a complete PMA submission to the FDA and Health Canada before valuing SoftScan® into the current valuation.**

Comparables

Micro Cap	Ticker Symbol	Price (5/18/2006)	12 month High-Low	Shares (MM)	Mkt. Cap (\$MM)	Ent. Value (\$MM)
ART Advanced Research Technologies	ARA.TO	CDN \$0.75	CDN \$1.00-0.46	52.1 m	CDN \$33.8 m	CDN \$26.1 m
Caliper Life Sciences	CALP	\$5.18	\$7.49-4.90	33.88 m	\$175.5 m	\$148.8 m
Bruker BioSciences	BRKR	\$5.39	\$6.05-3.83	90.07 m	\$485.5 m	\$405.1 m
DOBI Medical International	DBMI.OB	\$0.07	\$0.52-0.06	66.41 m	\$4.85 m	\$2.34 m
Imaging Diagnostic Systems	IMDS.OB	\$0.15	\$0.34-0.11	215.38 m	\$31.23 m	\$32.2 m

Comparables Index

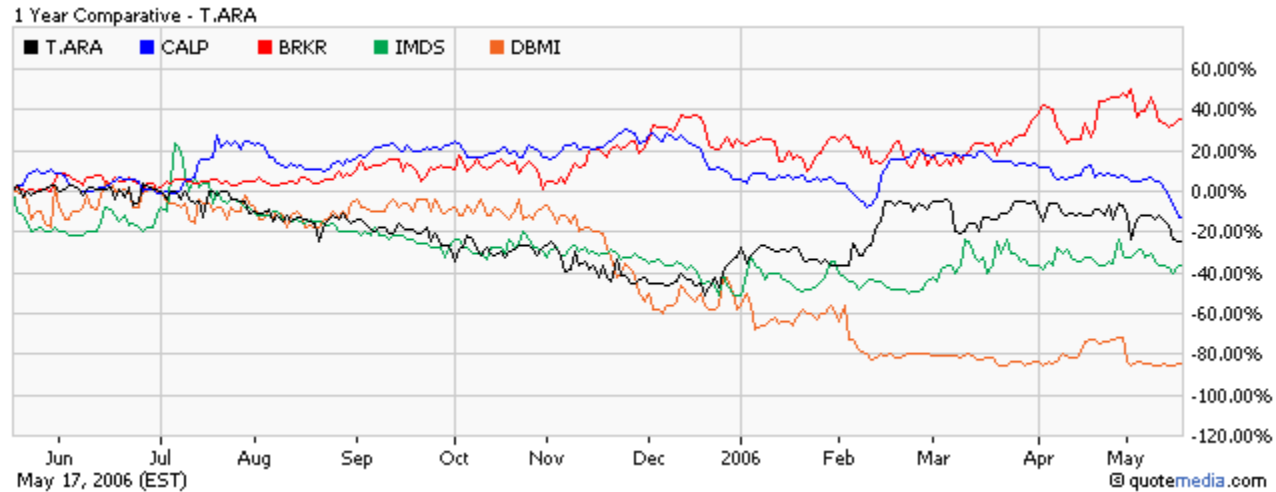
ARA.TO
(ARA.TO -Black)

Caliper, Inc.
(CALP -Blue)

Bruker Biosciences Corp
(BRKR -Red)

Imaging Diagnostics
Systems, Inc.
(IMDS.OB -Green)

DOBI Medical
International, Inc.
(DBMI.OB - Orange)



Company Description

ARA.TO Advanced Research Technologies Inc. (ARA.TO) was founded in 1993 and went public in June 2000. It is located in Quebec, Canada and employs 60 people. ARA.TO in 2002 divested its imaging division and is now expanding with its global partner GE Healthcare in a realigned definition of both its mission and deployment of assets. **ARA.TO is involved in the research, design, and development of optical imaging technologies used in the detection of anomalies in the bio-optical sector.** Their principal business is the application of optical imaging technology to the biomedical sector. Based on its proprietary time domain optical technology, ARA.TO developed and commercialized eXplore Optix™, a pre-clinical optical molecular imager, designed to characterize, visualize and measure cellular and molecular processes and pathways. eXplore Optix™ technology platform assists biotechnology companies bench processes in accelerating the development of new drugs.

ARA.TO's second product platform, SoftScan®, a time domain optical breast imaging device, has the potential to transform how breast cancer is diagnosed and managed. Under the current treatment model, a suspicious mammogram is often followed up by a biopsy, even though 80% of biopsies prove to be negative. As an adjunct to mammography, SoftScan® will safely characterize tumors as malignant or benign. SoftScan® is non-invasive, and can be used throughout therapy to monitor treatment progression — an option unavailable with radiography, which carries its own health risks. SoftScan® is an optical imaging device for the detection, diagnosis and characterization of breast cancer. SoftScan® addresses a critical and unmet need in breast tissue analysis. This device provides functional or physiological information, such as tissue perfusion and blood oxygen content about a lesion, allowing characterization of a lesion as benign or malignant. In April 2004, ARA.TO announced positive clinical study results from product research and development with ARA.TO's SoftScan® breast imaging system. **ARA.TO has launched the pivotal clinical study, North American in scope, the final stage prior to commercializing SoftScan®.** These results demonstrate the promise of the SoftScan® breast imaging system to discriminate between malignant and normal breast tissue.

The Alerion Biomedical acquisition **has the capability to develop and supply biomarker and imaging agents for the preclinical and clinical markets creating a new recurring revenue platform.**

More information is available at: www.art.ca

Investment Risks

ARA.TO relies on GE Healthcare to market its eXplore Optix™ product and ARA.TO's burn rate depends on many factors: sales and resulting revenue progress of eXplore Optix™ and on the expenditures of SoftScan® clinical development and trials. ARA.TO has recently raised additional financing. **ARA.TO currently relies on one product (eXplore Optix™) to fund and define a thesis of a new capital (availability) or structure to continue development and regulatory (clinical testing) steps.** ARA.TO's second product, SoftScan®, entails significant risks, including the costs and time involved in development cycle as well as in obtaining the required regulatory approvals. SoftScan® is still in development and has yet to be approved by regulatory authorities in the jurisdictions targeted by ARA.TO for Soft Scan® commercialization. **There can be no assurance that ARA.TO's ongoing clinical testing activities will provide positive outcomes or that the results of clinical trials will meet the desired clinical endpoints established in the clinical study protocols.** Even if the clinical studies are successful, there can be no assurance that ARA.TO will be successful in obtaining the necessary regulatory approvals or, once obtained, in maintaining these approvals. The actual schedules for the SoftScan® clinical trials could vary significantly from forecasts due to a number of factors. Any delay in the completion of ARA.TO's clinical trials could cause the price of its common shares to decline. The acquisition of Alerion Biomedical may expose ARA.TO to additional risks that could adversely affect the company's stock price.

A detailed list of the risks and uncertainties affecting ARA.TO can be found in its Annual Report or in Form 20-F at www.sedar.com, the Canadian version of Edgar.

Catalysts and Milestones

DATE	EVENTS	STATUS
Q3/04	ISO 9001 certification	Completed
Q3-Q4/04	Launch New eXplore Optix™ Hardware enhancements and 3-D Software Applications	On-going
Q3/05	Financing Completed in July	Completed
Q3/05	ISO 13485 Certification	Completed
Q3/05	Initial Preclinical results for SoftScan® released	Completed
Q4/05	Pivotal Clinical Studies for SoftScan®	On-going
Q1/06	Acquisition of Alerion Biomedical	Completed
Q2/06	2 Fund Raise(s) – CDN\$9.3 m	Completed 4/25/06 and 5/17/06
Q2-3/06	Regulatory filing for SoftScan®	
FY/06	SoftScan® - Interim - TRIAL RESULTS	
FY2007	US and Canadian Regulatory Approval for SoftScan®	

Competition for eXplore Optix™

Company	Product	Partner
Xenogen (XGEN) (Caliper Life Sciences has “agreed” to buy XGEN for \$80 million worth of stock)	IVIS® 200 and IVIS® 3D	None (Direct Sales Force)
CTI Molecular Imaging (CTMI) – acquired by Siemens	microPET® and microCAT®	Siemens (Acquirer)

Capitalization

(From Sedar as of 3/31/06)

Financial Instruments	Stock based Compensation (CDN) Exercise Price	# of Shares	Exercise Price(s) (CDN) (wt. avg.)	Expiration Date (wt. avg.)
Authorized Shares		Unlimited		
Number of Common Shares Outstanding		42,915,581		
Number of Outstanding Preferred Shares		6,341,982	\$1.26	2.5 years
Conversion of Preferred into Common (1/.9036)		5,730,615		
Convertible Debentures converted into Common		5,050,505	\$0.99	2.5
Number of Share Purchase Warrants Outstanding		4,222,817	\$1.74	
Number of Stock Options Outstanding		2,680,479	\$2.49	7.19 years
	\$0.63 - \$0.99	423,500	\$0.66	9.71
	\$1.00 - \$1.99	989,400	\$1.36	7.65
	\$2.00 - \$2.99	256,134	\$2.27	7.25
	\$3.00 - \$3.99	600,445	\$3.24	7.65
	\$4.00 - \$4.99	137,000	\$4.60	1.41
	\$6.00 - \$6.99	111,000	\$6.00	2.88
	\$7.00 - \$7.50	163,000	\$7.50	3.94
Total Options Outstanding and Wt. Avg.		2,680,479	\$2.49	7.19
Fully Dilutive Total		60,599,997		

Subsequent events-

ARA.TO closed on 5/17/06 an underwriting agreement with a syndicate of underwriters led by Salman Partners Inc., for 9,333,600 common shares of ART at a cost of CA\$0.75 per share, for a total of CA\$7,000,050. The other members of the syndicate are Canaccord Capital Corporation and Westwind Partners Inc.

On 4/25/06, ART.TO closed on \$2.3 million investment with OppenheimerFunds, Inc., a leading institutional shareholder of ART and intends to use the net proceeds of the financing as working capital and to finance its corporate development. The exercise by Oppenheimer of its right to purchase additional preferred shares was made, ahead of the expiration of its one (1) year term, pursuant to the terms of a private placement of preferred shares by ART announced by press release on July 14, 2005. For a period of twelve (12) months from the closing date of the private placement, Oppenheimer had the option to purchase an additional 2,000,000 preferred shares at a price of \$1.14 per additional preferred share, for a total additional investment of \$2,280,000. Each such additional preferred share is convertible at a fixed conversion price of \$1.08 per share, equal to 112.5% of the closing price of ART's common shares on the Toronto Stock Exchange on June 30, 2005 (being an effective conversion rate of 1.0056 common shares for each additional preferred share).

Technology, Strategic Alliances, Management, Board

To access technology section click on the link below

HTTP: [Technology Review](#)

Financial Highlights

Q1/FY06

Q1/06 revenues were \$802,556, compared to \$1,011,350 in Q1/05 versus \$1,239,700 for Q4/05. Sales of products for the quarter ended 3/31/06 amounted to \$802,856, compared to \$752,850 for Q1/05. No maintenance sales were recorded during the Q1/06 and Q4/05, compared to \$258,500 in Q1/05. During Q1/06, ARA.TO sold four (4) eXplore Optix units compared to four (4) units in Q1/05. During Q1/06, ARA.TO did not upgrade any single-wavelength systems to the new multiwavelength system, compared to five (5) systems that were upgraded in Q1/05. Cost of sales for Q1/06 was \$498,038 compared to \$739,321 in Q1/05. The gross margin for Q1/06 was 38% compared to 27% for Q1/05. The gross margin increase during Q1/06 as compared with Q1/05 was due to the fact that ARA.TO: negotiated better terms with vendors of eXplore Optix components due to larger volumes; performed design optimization; and last year transitioned to the new multiwavelength base system that offered the possibility to its existing customers to upgrade their base system to the new system at a preferential price. Cost of sales consisted principally of raw materials, royalties and manufacturing costs. ARA.TO's research and development ("R&D") expenditures for Q1/06, net of investment tax credits amounted to \$1,963,772, compared to \$2,670,044 for Q1/05. The R&D expenditures consist principally of the salaries and benefits for personnel involved in R&D projects, of consultation fees paid for clinical studies, the cost associated with the preparation and conduct of the clinical studies and of the cost of prototypes. The decrease in R&D expenditures for Q1/06, compared to Q1/05, relates to the medical sector and is mainly due to the non recurring costs engaged in the first quarter of last year with the preparation of the clinical sites, the manufacturing of the SoftScan clinical prototypes, the negotiation of the protocols, and the cost related to site selection both in Canada and in the U.S. Selling, general, and administrative ("SG&A") expenses in Q1/06, totaled \$992,503, compared to \$872,083 for Q1/05. SG&A expenses consist principally of salaries, professional fees and other costs associated with marketing activities. The increase in SG&A expenses compared to the SG&A expenses incurred for the same period last year comes principally from investor relations activities. SG&A expenses were also engaged to support commercial activities related to the eXplore Optix product, as well as to support its overall activities. The loss before interest and foreign exchange loss for Q1/06 was \$2,724,908 compared to \$3,326,578 for Q1/05. As a result, the net loss for Q1/06 was \$3,142,032 or \$0.07 per share, compared to \$3,243,694 or \$0.08 per share for Q1/05. ARA.TO will have/has US\$12.8 million in cash (net of financing fees and related expenses) and US\$1.6 million in accounts receivable and investment tax credits to fund new and ongoing activities.

Financial Statement

ADVANCED RESEARCH TECHNOLOGIES, INC.							
UNAUDITED CONDENSED STATEMENTS OF (CONTINUING) OPERATIONS							
Three Months Ended	FY	2005				FY	2006
(\$USDollars)	2004	Mar	June	Sept	Dec	2004	Mar
	(12 months)					(12 months)	
Revenues	1,935,000	1,011,350	752,500	1,122,000	1,239,700	4,125,550	802,556
Costs and expenses:							
Cost of products sold	915,087	739,321	477,121	756,194	816,949	2,789,585	498,038
Research and development	7,511,485	2,670,044	1,999,239	2,269,531	2,216,146	9,154,960	1,963,772
Selling, general and administrative	3,474,446	872,083	971,275	1,103,473	971,405	3,918,236	992,503
Amortization	249,627	56,480	88,811	71,016	69,499	285,806	73,151
Total Costs and Expenses	12,150,645	4,337,928	3,536,446	4,200,214	4,073,999	16,148,587	3,527,464
Operating loss	-10,215,645	-3,326,578	-2,783,946	-3,078,214	-2,834,299	-12,023,037	-2,724,908
Interest expense on conv. debenture	-	-	-	330,309	553,882	884,191	475,742
Interest income	-300,221	-56,311	-39,557	-43,190	-102,650	-241,708	-62,307
Foreign Exchange gain	13,179	-26,573	-42,506	-504,955	-27,788	-463,664	3,689
Net loss	-9,928,603	-3,243,694	-2,701,883	-3,870,288	-3,313,319	-13,129,184	-3,142,032
Basic and diluted net loss per common share	(\$0.24)	(\$0.08)	(\$0.06)	(\$0.09)	(\$0.08)	(\$0.31)	(\$0.07)
Shares used in computing basic and diluted net loss per common share	41,220,856	42,664,523	42,664,523	42,664,523	42,664,523	42,664,523	42,723,151
Balance Sheet Metrics	FY	2005				FY	2006
	2004	Mar	June	Sept	Dec	2005	Mar
Cash & Equivalents	11,831,151	9,042,139	4,997,956	11,596,404	9,116,535	9,116,535	5,184,655
Total Assets	16,764,887	13,873,323	10,445,960	18,643,278	15,232,209	15,232,209	12,381,065
Long-term debt	-	-	-	881,622	1,666,543	1,666,543	1,348,325
Shareholders equity	14,609,814	11,285,281	8,453,660	12,678,640	9,368,813	9,368,813	6,535,054

The information contained herein is believed to be reliable, but is not guaranteed by us

Please review our multiple disclosures section. 5/18/2006

Quarterly Press Releases

ART/eXplore Optix 'TM' Based Research Presented at European Society for Molecular Imaging Inaugural Meeting, Paris, France
Wednesday May 17

Abstract presented by Leiden University researchers demonstrates labelling of stem cells in the brain to detect beta-galactosidase activity, using the eXplore Optix system

Martin Memorial to Participate in International Clinical Trial for Breast Cancer sponsored by ART
Monday April 24

The Robert and Carol Weissman Cancer Center at Martin Memorial will be one of eight facilities in the U.S. and Canada to test SoftScan, a new diagnostic technology developed by ART Advanced Research Technologies

Art Introduces Newly Acquired Portfolio of Fenestra'™' Imaging Agents at AACR: Fenestra'™' Imaging Contrast Agents for MicroCT Enhance Research and Drug Discovery
Thursday March 30

ART Advanced Research Technologies Inc., a Canadian medical device company and a leader in optical molecular imaging products for the healthcare and pharmaceutical industries, is pleased to introduce its newly acquired Fenestra(TM) biomarker technology at the annual conference of the American Association for Cancer Research (AACR), being held from April 2-5 at the Washington Convention Center in Washington, DC (booth # 1938).

ART Initiates Clinical Trials of the SoftScan'R' System at the University of California-San Diego as Part of its North American Pivotal Study
Wednesday March 29

The University of California-San Diego participates in the clinical trial of this unique and innovative breast cancer diagnosis technology

ART Advanced Research Technologies Inc., a Canadian medical device company and a leader in optical molecular imaging products for the healthcare and pharmaceutical industries, today announced that it is undertaking clinical trials at the Moores Cancer Center, University of California, San Diego (UCSD), in La Jolla, as part of its North American pivotal study for the SoftScan® optical breast imaging system.

ART to Present at NYSSA 2nd Annual Quebec Biotechnology Industry Conference in New York City
Wednesday March 22

ART Advanced Research Technologies Inc., a Canadian medical device company and a leader in optical molecular imaging products for the healthcare and pharmaceutical industries, announced today that on Thursday, March 23, 2006, Micheline Bouchard, President & CEO, will present an update on ART's recent developments in achieving key milestones at the New York Society of Security Analysts (NYSSA) 2nd Annual Quebec Biotechnology Industry Conference to be held at the Harvard Club, located at 27 West 44th Street in New York City. Mrs. Bouchard's presentation will take place at 3:10 p.m. (EST).

ART Initiates Clinical Trials of the Softscan'R' System at Toronto's Princess Margaret Hospital as Part of North American Pivotal Study
Wednesday March 22

University Health Network's Princess Margaret Hospital participates in the clinical trial of this unique and innovative breast cancer diagnosis technology

ART to Participate in the Biomedical Optics Meeting of the Optical Society of America, in Fort Lauderdale, Florida
Monday March 20

Posters presented at the meeting will describe recent research in both preclinical and clinical applications of ART's time domain technology platform

ART Advanced Research Technologies Inc., a Canadian medical device company and a leader in optical molecular imaging products for the healthcare and pharmaceutical industries, is pleased to announce its participation at the Biomedical Optics Meeting of the Optical Society of America (OSA BIOMED), being held at the Fort Lauderdale Grande Hotel and Yacht Club in Fort Lauderdale, Florida, from March 19-22, 2006.

ART Completes Acquisition of Alerion Biomedical, Inc.: The Company is Positioned to Meet Industry Needs in Fast Growing Market
Tuesday March 14

ART Advanced Research Technologies Inc. a Canadian medical device company and a leader in optical molecular imaging products for the healthcare and pharmaceutical industries, announced today that it has closed the transaction to acquire substantially all of the imaging technology and product assets of Alerion Biomedical, Inc., a US-based developer and manufacturer of biomarkers and contrast media for preclinical and clinical imaging devices. This transaction has received all necessary regulatory approvals, including that of the Toronto Stock Exchange.

ART to Be Present as Bronze Sponsor at the Breast Course 2006 in Key Largo, Florida
Friday March 10

ART Advanced Research Technologies Inc., a Canadian medical device company and a leader in optical molecular imaging products for the healthcare and pharmaceutical industries, is pleased to announce its participation as a Bronze Sponsor and exhibitor in the 2006 edition of The Breast Course, to be held at the Ocean Reef Club in Key Largo, Florida, from March 13-16, 2006.

ARA TO's Scientific Advisory Board Endorses Treatment Monitoring Application for SoftScan
Wednesday March 1

ART Advanced Research Technologies' (ART) breast optical imaging device has demonstrated ability to consistently quantify small variations in physiological parameters indicative of malignancy, making device well suited to monitor the efficacy of breast cancer treatment.

ART Announces Alerion Biomedical, Inc. Acquisition
Wednesday February 15

New product line will ensure high-margins and recurring revenues in fast growing market for biomarkers and radiopharmaceuticals

ART Advanced Research Technologies Inc., a Canadian medical device company and a leader in optical molecular imaging products for the healthcare and pharmaceutical industries, is pleased to announce that it has concluded a definitive agreement to acquire substantially all of the imaging technology and product assets of Alerion Biomedical, Inc.

Please Read these Important Disclosures!

Reg. AC, Analyst Certification

I, Henry W. McCusker, hereby certify that all the views expressed in this review, accurately reflect my personal views about the subject company or companies and its or their securities. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views contained in this review.

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Informational: It has been our practice to generate an informational company review when we initiate coverage. A "Buy" ranking could accompany a price target but these company reviews generally entail that additional information is needed to determine or clarify the companies approach to the growth opportunity.

Buy: Stocks ranked "Buy" are those stocks Scimitar recommend actively buying. These are stocks that are demonstrating their vision while meeting expectation and should appreciate at least 10% over the next 6 months.

Hold: Stocks ranked "Hold" are those stocks Scimitar would continue to hold in a portfolio. These are stocks that are making progress strategically and operationally but are not expected to demonstrate significant appreciation in the next 6 months.

Sell: Stocks ranked "Sell" are those Scimitar would sell; these are stocks that appear not to be able to fulfill or deliver on their disclosed milestones and are expected to depreciate at least 10% over the next 6 months.

Termination (of coverage): In the event an analyst's coverage is terminated, there is a requirement that firms notify investors when coverage is dropped. This notice must include a final ranking or recommendation. The rule specifically calls for notice to be made in the same manner as in research coverage was first initiated.

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