



ARA.TO

ART Advanced Research Technologies, Inc.

August 7, 2006

SoftScan® Advances Medical Device License Application in Canada

Ranking: **“BUY”**

Price at 08/04/06: **CDN \$0.55**

52 Week Range: **CDN \$0.45- \$0.95**

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

Market Capitalization: **CDN \$28.6 m**

Shares Outstanding: **52.1 m**

Fiscal Year End: **Dec**

Exchange: **TSX**



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

Regulatory approval filings begin

ARA.TO announced that it has filed a Medical Device License Application with Health Canada to begin the commercialization of its SoftScan breast imaging device. The granting of a license will allow ART to distribute the SoftScan device in Canada by certifying that the device is safe and effective and meets quality standards. ARA.TO is seeking regulatory approval of SoftScan as an adjunct to X-ray mammography. It uses a non-invasive and pain-free approach based on time-domain optical imaging technology which will enable the characterization of breast tumors by clinicians as benign or malignant, without exposing the patients to potentially harmful radiation.

Sebastien Gignac to Succeed Micheline Bouchard as President and CEO

Sebastien Gignac joined ART in July 1998 as legal counsel. In March 2000, he was appointed Secretary of ARA.TO by the Board of Director and became an officer of the Company. In December 2001, he was appointed Vice President, with specific responsibility for the divestiture of the ISIS industrial division. In March 2003, in addition to his existing titles and responsibilities, he was appointed General Counsel and was given responsibility for quality and regulatory affairs. In January 2004, he added to his responsibilities the role of overall strategic alliance manager with the ARA.TO's key partner, GE, as well as the management of ART's intellectual property and communications. Mr. Gignac has played a key role in recent years in all matters of strategic importance, including financing, divestitures, acquisitions and the negotiations of commercial and distributions agreements with GE. Over the same period of time, Mr. Gignac has also become intimately involved in the operations, in particular through the implementation of the quality management system and the preparation of filings for the regulatory approval of the SoftScan clinical device. In addition to his responsibilities as Secretary to the Board and its Committees, he has acted in that capacity for the scientific, clinical and business advisory boards of ART which report to the President and CEO.

Investment Thesis

We are maintaining a “BUY” based on ARA.TO.

We believe that the change in management forecasts gaining control of the generation of revenue and sales, G&A, and R&D expenditures. Revenue generation (at this time without the SoftScan® approval) is paramount and equates to a better stock price. A specific breakout should be provided of the clinical trial costs and should be unbundled within the specifics of the R&D budget. **Our FY2006 - is - still \$1.00 - \$1.25. However, ARA.TO at this price (CDN\$0.55) still presents an upside though the stock has taken a good price hit for these last few quarters.** But maximizing the sales effort to exceed the revenue numbers will focus the appreciation of the stock price. The ever widening losses must be curtailed. Spending and costs need to be cut. If a new partner is in the works for SoftScan®; why can't a non-exclusive partnering with GE Healthcare be considered? **Give the new leader, Sebastian, time to make a mark - but the honeymoon will be over if more of the same becomes evident. We believe investors should focus on the following Q3 - 04/06 issues:** sales execution for eXplore Optix™; ART's timely filings for SoftScan®; Jacques Bédard's paring of the G&A; financial structures to the future; the revenue (shipments and modifications) progress of eXplore Optix™ over the remaining two (2) quarters in 2006. **ARA.TO has significant potential, but we do not expect any major fluctuation in the stock price until post Q3/06 reporting.**

Highlights of Q2/06 included: Revenues for the second quarter totaled \$829,000, including sales from the newly acquired Fenestra product line; ARA.TO filed a Medical Device License Application with Health Canada to obtain approval to begin the commercialization of the SoftScan breast imaging device; Clinical trials continued with enrollment at the Princess Margaret Hospital in Toronto, the University of California-San Diego (UCSD), the Cancer Center at Martin Memorial in Florida, the Cedars Breast Clinic at the McGill University Health Centre (MUHC) and at the Central Alberta Medical Imaging Services (CAMIS); Integration of Alerion Biomedical, Inc. (Alerion) imaging technology and product assets completed; CDN\$9.3 million (US\$8.5 million) in investments closed in this quarter will fund new and ongoing activities; and Scientific presentations at the European Society of Molecular Imaging and at the International Union of Biochemistry and Molecular Biology. **During Q2/06, ARA.TO sold three (seven for the six-month period ended 6/30/06) eXplore Optix units compared to two (six for the six-month period ended 6/30/05) units versus four (4) for Q1/06.** Sales from products include the multi-wavelength eXplore Optix system as well as add-ons and the sales of the Fenestra product. Sales resulting from maintenance include upgrades of the single-wavelength system to the new multiwavelength system and the sale of demonstration units.

ARA.TO initiated (7/18/06) an agreement with GE Healthcare Bio-Sciences KK (BSKK), Japan's life sciences unit within GE Healthcare of General Electric Company under which it will act as exclusive distributor in Japan for ART's Fenestra(TM) line of molecular imaging contrast products. Terms were not disclosed. The Japanese pharmaceutical and academic research community represents a very promising market that could be penetrated by BSKK.

We hopefully can – now - project the SoftScan® regulatory approval into our FY07 price target. **FY06's valuation could dramatically increase to previous guidance of \$3.50 - \$4.50 if SoftScan® if/as is approved.** 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. From the past, SoftScan®'s initial preclinical trial results were published in August 2005 and were positive.**

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

Q2/06 Highlights

Sales for Q2/06 were \$828,673, compared to \$752,500 for Q2/05 versus \$802,556 for Q1/06. Sales resulting from products amounted to \$664,056, compared to \$511,550 for Q2/05. **Sales resulting from maintenance totaled \$164,617, compared to \$240,950 in Q2/05 and zero (\$0.00) in Q1/06.** For the six-month period ended 6/30/06, sales were \$1,631,229, compared to \$1,763,850 for the six-month period ended 6/30/05. Sales resulting from products for the six-month period ended 6/30/06 amounted to \$1,466,612, compared to \$1,264,400 for the same period of last year. Sales resulting from maintenance totaled \$164,617, compared to \$499,450 in the six-month period ended 6/30/05. **During Q2/06, ARA.TO sold three (seven for the six-month period ended 6/30/06) eXplore Optix units compared to two (six for the six-month period ended 6/30/05) units during Q1/05 versus four (4) for Q1/06.** Sales from products include the multi-wavelength eXplore Optix system as well as add-ons and the sales of the Fenestra product. Sales resulting from maintenance include upgrades of the single-wavelength system to the new multiwavelength system and the sale of demonstration units. For Q2/06, the total cost of sales was \$507,628, compared to \$477,121 in Q2/05. For the six-month period ended 6/30/06, cost of sales was \$1,005,666, compared to \$1,216,442 for the six-month period ended 6/30/05. **During the three and six-month periods ended 6/30/06, ART generated a gross margin of 44% and 41% respectively from the sales of its products compared to 38% (in Q1/06) and 36% for Q1/05.** Also, ARA.TO generated on the maintenance a gross margin of 16% for both the three and six-month periods ended 6/30/06, compared to 34% and 18% respectively for the same periods a year ago. **The combined gross margin increase during the six-month period compared to the same period of last year is principally due to the lower cost of the eXplore Optix components resulting from more favorable terms negotiated with some vendors and the sales of the Fenestra product which provides higher margins.**

The ARA.TO's R&D expenditure for 6/30/06, net of investment tax credits amounted to \$2,385,340, compared to \$1,999,239 for Q2/05. **ARA.TO's R&D expenditures for Q1/06, net of investment tax credits amounted to \$1,963,772.** For the six-month period ended 6/30/06, R&D expenditures, net of investment tax credits, were \$4,349,112, compared to \$4,669,283 for the six-month period ended 6/30/05. The R&D expenditures consist principally of the salaries and benefits paid to its employees involved in R&D projects, and of clinical activities. The increase in R&D expenses for the current quarter compared to the same quarter last year is due to the increased effort accomplished to complete the SoftScan Medical Device License Application with Health Canada. **At the same time, in order to optimize the eXplore Optix performance; ARA.TO has reassigned a large part of the R&D resources of the SoftScan program to the Optix program.** The decrease in R&D expenditures for the six-month period compared to last year also relates to the medical sector and is principally due to the non-recurring cost engaged last year associated with the manufacturing of the SoftScan clinical prototypes, partially offset by the increase of the costs related to complete the Health Canada filing.

Selling, general, and administrative ("SG&A") expenses for Q2/06 totaled \$986,932, compared to \$971,275 for Q2/05 versus \$992,503 in Q1/06. For the six-month period ended 6/30/06, SG&A expenses were \$1,979,435, compared to \$1,843,358 for the six-month period ended 6/30/05. SG&A expenses were (principally) engaged to support commercial activities related to the eXplore Optix and Fenestra products as well as to support the Company's overall activities.

The loss before interest and foreign exchange loss Q2/06 was \$3,122,676, compared to \$2,783,946 for Q2/05 versus \$2,724,908 the loss before interest and foreign exchange for Q1/06. For the six-month period ended 6/30/06, the loss before interest and foreign exchange loss was \$5,847,584, compared to \$6,110,524 for the same period a year ago. **As a result, net loss for Q2/06 was \$3,643,064 or \$0.07 per share, compared to \$2,701,883 or \$0.06 per share for Q2/05 versus the net loss for Q1/06 was \$3,142,032 or \$0.07 per share.** For the six-month period ended 6/30/06, the net loss was \$6,785,096 or \$0.14 per share, compared to \$5,945,577 or \$0.14 per share, for the six-month period ended 6/30/05.

ARA.TO has **US\$8.9 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 increased adoption rates have been hard to come by. 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.

Reiterating, we believe that the change in management forecasts gaining control of the generation of revenue and sales, G&A, and R&D expenditures (although the costs of the clinical trials must continue). But more specifically, the realization that the revenue generation (at this time without the SoftScan® approval) is paramount and equates to a better stock price. A specific breakout should be provided of the clinical trial costs and should be unbundled within the specifics of the R&D budget. **Our FY2006 - is - still \$1.00 - \$1.25. However, ARA.TO at this price (CDN\$0.55) still presents an upside though the stock has taken a good price hit for these last few quarters.** But maximizing the sales effort to exceed the revenue numbers will focus the appreciation of the stock price. The ever widening losses must be curtailed. Spending needs to be cut. If a new partner is in the works for SoftScan®; why can't a non-exclusive partnering with GE Healthcare be considered?

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) \$572.87 m, IMDS.OB at (US) \$30.30 m and DBMI.OB at (US) \$1.27 m. ARA.TO's market capitalization is (CDN) \$28.6 m (US \$25.51) 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 early 2006, mostly because of market adoption. 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.

Comparables

Micro Cap	Ticker Symbol	Price (08/04/2006)	12 month High-Low	Shares (MM)	Mkt. Cap (\$MM)	Ent. Value (\$MM)
ART Advanced Research Technologies	ARA.TO	CDN \$0.55	CDN \$0.95 -0.45	52.1 m	CDN \$28.6 m	CDN \$26.1 m
Caliper Life Sciences	CALP	\$4.17	\$7.49-3.95	33.99 m	\$141.50 m	\$115.07 m
Bruker BioSciences	BRKR	\$6.36	\$6.48-3.97	90.07 m	\$572.87 m	\$507.869 m
DOBI Medical International	DBMI.OB	\$0.0165	\$0.50-0.01	76.90 m	\$1.27 m	\$1.52 m
Imaging Diagnostic Systems	IMDS.OB	\$0.13	\$0.31-0.11	233.06 m	\$30.30 m	\$29.39 m

Comparables Index

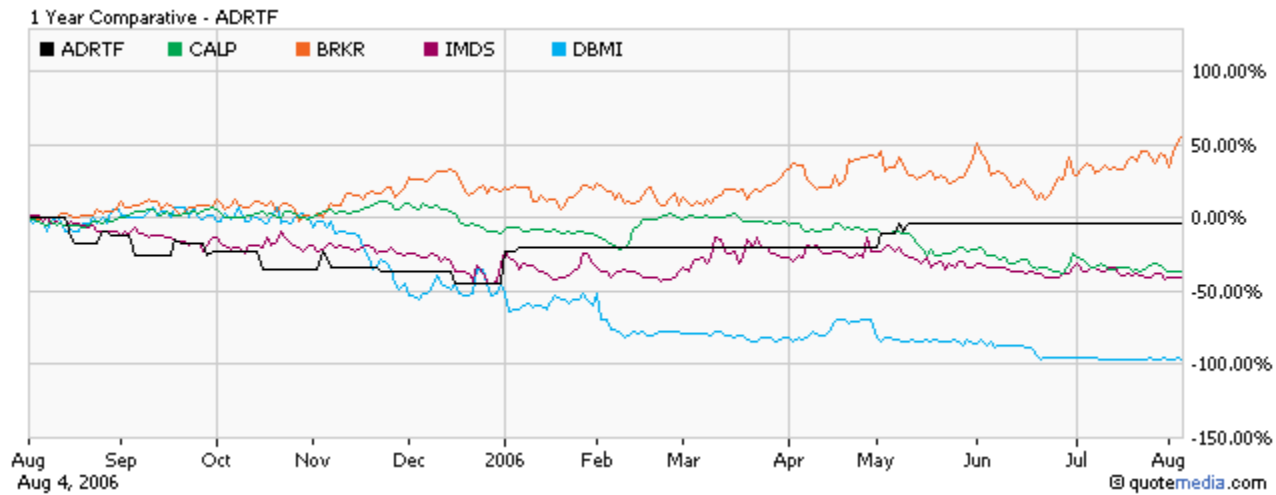
ARA.TO
(ARA.TO -Black)

Caliper, Inc.
(CALP -Green)

Bruker Biosciences Corp
(BRKR -Orange)

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

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



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®	
Q2/06	Management Change	Completed
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		

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.

Q2/06

Sales for Q2/06 were \$828,673, compared to \$752,500 for Q2/05. Sales resulting from products amounted to \$664,056, compared to \$511,550 for Q2/05. Sales resulting from maintenance totaled \$164,617, compared to \$240,950 in Q2/05. For the six-month period ended 6/30/06, sales were \$1,631,229, compared to \$1,763,850 for the six-month period ended 6/30/05. Sales resulting from products for the six-month period ended 6/30/06 amounted to \$1,466,612, compared to \$1,264,400 for the same period of last year. Sales resulting from maintenance totaled \$164,617, compared to \$499,450 in the six-month period ended 6/30/05. During Q2/06, ARA.TO sold three (seven for the six-month period ended 6/30/06) eXplore Optix units compared to two (six for the six-month period ended 6/30/05) units during the same quarter a year ago. Sales from products include the multi-wavelength eXplore Optix system as well as add-ons and the sales of the Fenestra product. Sales resulting from maintenance include upgrades of the single-wavelength system to the new multiwavelength system and the sale of demonstration units. For Q2/06, the total cost of sales was \$507,628, compared to \$477,121 in Q2/05. For the six-month period ended 6/30/06, cost of sales was \$1,005,666, compared to \$1,216,442 for the six-month period ended 6/30/05. During the three and six-month periods ended 6/30/06, ART generated a gross margin of 44% and 41% respectively from the sales of its products compared to 38% and 36% for the same periods a year ago. Also, ARA.TO generated on the maintenance a gross margin of 16% for both the three and six-month periods ended 6/30/06, compared to 34% and 18% respectively for the same periods a year ago. The combined gross margin increase during the six-month period compared to the same period of last year is principally due to the lower cost of the eXplore Optix components resulting from more favorable terms negotiated with some vendors and the sales of the Fenestra product which provides higher margins. Cost of sales consisted principally of raw materials, royalties and manufacturing costs. The ARA.TO's R&D expenditure for 6/30/06, net of investment tax credits amounted to \$2,385,340, compared to \$1,999,239 for Q2/05. For the six-month period ended 6/30/06, R&D expenditures, net of investment tax credits, were \$4,349,112, compared to \$4,669,283 for the six-month period ended 6/30/05. The R&D expenditures consist principally of the salaries and benefits paid to its employees involved in R&D projects, and of clinical activities. The increase in R&D expenses for the current quarter compared to the same quarter last year is due to the increased effort accomplished to complete the SoftScan Medical Device License Application with Health Canada. At the same time, in order to optimize the eXplore Optix performance; ARA.TO has reassigned a large part of the R&D resources of the SoftScan program to the Optix program. The decrease in R&D expenditures for the six-month period compared to last year also relates to the medical sector and is principally due to the non-recurring cost engaged last year associated with the manufacturing of the SoftScan clinical prototypes, partially offset by the increase of the costs related to complete the Health Canada filing. Selling, general, and administrative ("SG&A") expenses for Q2/06 totaled \$986,932, compared to \$971,275 for Q2/05. For the six-month period ended 6/30/06, SG&A expenses were \$1,979,435, compared to \$1,843,358 for the six-month period ended 6/30/05. SG&A expenses consist principally of salaries, professional fees and other costs associated with marketing activities. SG&A expenses were (principally) engaged to support commercial activities related to the eXplore Optix and Fenestra products as well as to support the Company's overall activities. The loss before interest and foreign exchange loss Q2/06 was \$3,122,676, compared to \$2,783,946 for Q2/05. For the six-month period ended 6/30/06, the loss before interest and foreign exchange loss was \$5,847,584, compared to \$6,110,524 for the same period a year ago. As a result, net loss for Q2/06 was \$3,643,064 or \$0.07 per share, compared to \$2,701,883 or \$0.06 per share for Q2/05. For the six-month period ended 6/30/06, the net loss was \$6,785,096 or \$0.14 per share, compared to \$5,945,577 or \$0.14 per share, for the six-month period ended 6/30/05.

Financial Statement

ADVANCED RESEARCH TECHNOLOGIES, INC.								
UNAUDITED CONDENSED STATEMENTS OF (CONTINUING) OPERATIONS								
Three Months Ended	FY	2005				FY	2006	2006
(\$US Dollars)	2004	Mar	June	Sept	Dec	2004	Mar	June
	(12 months)					(12 months)		
Revenues	1,935,000	1,011,350	752,500	1,122,000	1,239,700	4,125,550	802,556	828,673
Costs and expenses:								
Cost of products sold	915,087	739,321	477,121	756,194	816,949	2,789,585	498,038	507,628
Research and development	7,511,485	2,670,044	1,999,239	2,269,531	2,216,146	9,154,960	1,963,772	2,385,340
Selling, general and administrative	3,474,446	872,083	971,275	1,103,473	971,405	3,918,236	992,503	986,932
Amortization	249,627	56,480	88,811	71,016	69,499	285,806	73,151	71,449
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	3,122,676
Interest expense on conv. debenture	-	-	-	330,309	553,882	884,191	475,742	397,456
Interest income	-300,221	-56,311	-39,557	-43,190	-102,650	-241,708	-62,307	-47,041
Foreign Exchange gain	13,179	-26,573	-42,506	-504,955	-27,788	-463,664	3,689	169,973
Net loss	-9,928,603	-3,243,694	-2,701,883	-3,870,288	-3,313,319	-13,129,184	-3,142,032	-3,643,064
Basic and diluted net loss per common share	(\$0.24)	(\$0.08)	(\$0.06)	(\$0.09)	(\$0.08)	(\$0.31)	(\$0.07)	(\$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	47,582,281
Balance Sheet Metrics	FY	2005				FY	2006	2006
	2004	Mar	June	Sept	Dec	2005	Mar	June
Cash & Equivalents	11,831,151	9,042,139	4,997,956	11,596,404	9,116,535	9,116,535	5,184,655	8,825,222
Total Assets	16,764,887	13,873,323	10,445,960	18,643,278	15,232,209	15,232,209	12,381,065	16,102,251
Long-term debt	-	-	-	881,622	1,666,543	1,666,543	1,348,325	999,450
Shareholders equity	14,609,814	11,285,281	8,453,660	12,678,640	9,368,813	9,368,813	6,535,054	10,763,025

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

Please review our multiple disclosures section. 08/07/2006

Quarterly Press Releases

ART Advanced Research Technologies Announces Executive Change: Sebastien Gignac to Succeed Micheline Bouchard as President & CEO
Wednesday July 19

The Board of Directors of ART Advanced Research Technologies Inc. ("ART"), a Canadian medical device company and a leader in optical molecular imaging products, announced today that it has accepted the resignation tendered by Ms. Micheline Bouchard as President & Chief Executive Officer of the Company and her resignation from the Board of Directors of the Company, effective immediately. The Board further announced that it has appointed Mr. Sebastien Gignac as President & Chief Executive Officer of the Company. Mr. Gignac was also appointed to the Board of Directors of the Company.

ART Advanced Research Technologies Concludes Agreement with GE Healthcare for the Distribution of the Fenestra™ Line of Molecular Imaging Contrast Products in Japan
Tuesday July 18

ART Advanced Research Technologies Inc. has concluded an agreement with GE Healthcare Bio-Sciences KK (BSKK), Japan's life sciences unit within GE Healthcare of General Electric Company under which it will act as exclusive distributor in Japan for ART's Fenestra(TM) line of molecular imaging contrast products. Terms were not disclosed

ART Receives Health Canada Authorization to Begin a Breast Cancer Treatment Monitoring Pilot Study for its SoftScan Device
Thursday July 13

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 obtained authorization from Health Canada's Therapeutic Products Directorate to begin a pilot study to evaluate the effectiveness of the SoftScan optical breast imaging system in treatment monitoring. Dr. Gregory Czarnota, Radiation Oncologist at the Sunnybrook Health Sciences Centre in Toronto, Canada, will lead the study, which is expected to extend the clinical value of SoftScan beyond its important role in breast cancer detection and diagnosis and into breast cancer treatment

ART Submits License Application to Health Canada to Begin Commercialization of its SoftScan™ Breast Imaging Device
Thursday June 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, is pleased to announce that it has filed a Medical Device License Application with Health Canada to begin the commercialization of its SoftScan breast imaging device. The granting of a license will allow ART to distribute the SoftScan device in Canada by certifying that the device is safe and effective and meets quality standards.

ART to Present at the International Union of Biochemistry and Molecular Biology 'IUBMB' Congress in Kyoto, Japan
Wednesday June 21
Scientific Presentation by ART Researchers to Discuss Applications of eXplore Optix System

ART Advanced Research Technologies Inc., a leader in optical molecular imaging products for the healthcare and pharmaceutical industries, will be presenting the applications of time-domain imaging technologies at the 20th IUBMB International Congress of Biochemistry and Molecular Biology, being held at the Kyoto International Conference Hall in Kyoto, Japan, from June 18 to 23, 2006.

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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.

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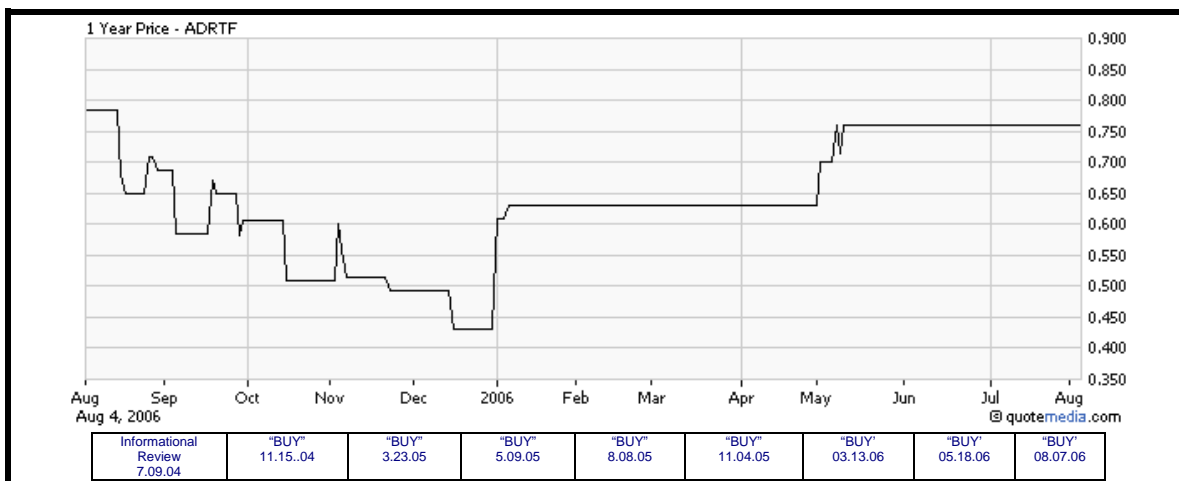
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