



# ARA.TO

ART Advanced Research Technologies, Inc.

Company Alert

December 5, 2006

Mid-Quarter  
Update

Henry McCusker

617.559.1080  
hwm@scimitarequity.com

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

## Filling the Coffers while Remapping the Future

### Recapitalizing

ARA.TO announced (11/21/06) that it has entered into agreements to repurchase its entire outstanding senior secured convertible debentures (the "Debentures"). The Debentures were issued on 7/28/05 to a limited number of U.S. institutional investors. The aggregate purchase price will consist of the outstanding principal amount of the Debentures currently outstanding (US\$2,500,000), plus a premium of 15% on such outstanding principal amount, plus accrued and unpaid interest thereon, for a total of US\$2,913,623. The repurchase of the Debentures is subject to the plan of arrangement aimed at recapitalizing and reorganizing ART's corporate structure becoming effective and ART having received proceeds of CA\$5,850,000 in connection with such a plan of arrangement. ART is also pleased to announce that it has entered into a letter-agreement with RBC Royal Bank regarding a CA\$2,700,000 credit facility. ART also completed a non-dilutive financing and reorganization of its corporate structure on 11/28/06 and this reorganization and private placement provided ART with non-dilutive financing of \$7.35 m before transaction expenses. This corporate reorganization by way of a plan of the "Arrangement" involving ART, its securityholders, ART and Matco Capital Ltd. ("Matco") has also been completed effective as of 11/27/06. As part of the arrangement, ART realized proceeds of \$5.85 million, representing the value of the investment by Matco by way of a convertible debenture. Furthermore, ART also realized additional net proceeds of approximately \$1.5 million through the sale on a private placement basis of 1,300,000 Class A common shares. The arrangement and the private placement provided ART with a total non-dilutive financing of \$7.35 million before transaction expenses, which proceeds will be used for general corporate purposes.

### Remapping the Future

The CEO, Sebastien Gignac is achieving newly minted milestones with a sense of urgency. The recapitalization is but the first example. The new leader is making his mark with these financial structuring. Expect more in the operating, partnering and business model. ARA.TO at this price (CDN\$0.335) presents an upside although the stock has taken a good price hit for these previous quarters. Our 12 month price target is \$1.00 - \$1.25.

## Company Alert

December 5, 2006

Mid-Quarter  
Update

## Stock Price Metrics

Price (as of 12/04/06)	<b>CDN\$0.335</b>
2006 Price Target	<b>\$1.00 – \$1.25</b>
52 Week Range	<b>\$0.32 – \$0.95</b>
Market Capitalization (12/04/06)	<b>CDN\$18.29 m</b>
Shares Outstanding (12/04/06)	<b>52.25 m</b>
Avg. Daily Volume (3 mo)	<b>24.16(k)</b>
Proforma Cash (9/30/06)	<b>(US)\$12.4 m</b>

Henry McCusker

617.559.1080  
hwm@scimitarequity.comPlease read the important  
Disclosures Section  
At the end of this review

## Company Alert

December 5, 2006

Mid-Quarter  
Update

Henry McCusker

617.559.1080  
hwm@scimitarequity.comPlease read the important  
Disclosures Section  
At the end of this review

## 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. 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.

**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 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.

**SoftScan® multicenter tissue characterization study met its primary endpoint of system accuracy of optical parameter measurements and that the data from the study demonstrated that the SoftScan® optical breast imaging system provides structural and physiologic indices that are useful during lesion characterization to discriminate malignant from benign and normal breast tissue.** The study also met its secondary endpoints of system accuracy of optical physiologic index measurements. Furthermore, an exploratory analysis of system diagnostic efficacy demonstrated statistically-significant differences among Normal Volunteers, Benign Lesion, and Malignant Lesion Populations for the physiologic indices of Perfusion and Oxyhemoglobin.

**ARA.TO 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 the treatment monitoring of breast cancer.** ARA.TO still plans on filing a pre-IDE submission with the FDA before the end of FY06 and a PMA submission in FY07. The key to U.S.-based reimbursement was built into the design of the trials to demonstrate that the use of this diagnostic system which adds to overall diagnostic efficacy.

More information is available at: [www.art.ca](http://www.art.ca)

## Company Alert

December 5, 2006

Mid-Quarter  
Update

## The Impact being made by the CEO Change

DATE	EVENTS	STATUS
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®	On-Going
Q3/06	Management Change	Completed
Q3/06	Management review of all Operation	On-Going
Q4/06	Agreements to repurchase entire outstanding Senior Secured Convertible Debentures	Closed 11/21/06
Q4/06	Non Dilutive Financing following Recapitalization with realization of CDN\$5.85 m and ability to realist CDN\$1.5 m through retained interest	Closed 11/22/06
FY/06	SoftScan® - Interim - TRIAL RESULTS	
FY2007	US and Canadian Regulatory Approval for SoftScan®	

Henry McCusker

617.559.1080  
hwm@scimitarequity.comPlease read the important  
Disclosures Section  
At the end of this review

## Company Alert

December 5, 2006

Mid-Quarter  
Update

Henry McCusker

617.559.1080  
hwm@scimitarequity.comPlease read the important  
Disclosures Section  
At the end of this review

## Achieving Significant Financial Milestones

I am maintaining a "BUY" based on ARA.TO with a 12 month price target of CDN\$1.00 to \$1.25 but I do propose the stock will not appreciate until the GE partnership is realigned to better accommodate a better or more dedicated sales initiative. Revenue generation (at this time without the SoftScan® approval) is paramount and equates to a better stock price. But maximizing the sales effort to exceed the revenue numbers will focus the appreciation of the stock price. I believe investors should focus on the following Q4/06 and Q1/07 issues: sales execution for eXplore Optix™; ART's timely filings for SoftScan®; paring of the SG&A costs; the revenue (shipments and modifications) progress of eXplore Optix™ over the remaining quarter of 2006 and Q1-2/07 .

ARA.TO (ART) entered into an agreement with Matco Capital Ltd., a private capital firm ("Matco"), to recapitalize and reorganize the Company's corporate structure, **providing ART with total proceeds of \$7.35 million before transaction expenses, comprised of a non-dilutive financing of \$5.85 million, and the ability to realize minimum additional proceeds of \$1.5 million. Matco will invest \$5.85 million in ARA.TO by way of a private placement.** ART shareholders will transfer their shares to New ART in exchange for New ART stock on a 1:1 basis, therefore retaining their full equity interest in ART's current business. **New ART will retain an equity participation in ART, which will pursue other business opportunities after the reorganization, and is, expected to realize minimum additional proceeds of \$1.5 million through such retained interest.** Current holders of options and warrants of ART will exchange their existing options and warrants for options and warrants of New ART. New ART will also assume the outstanding convertible debentures of ART. As part of the reorganization, New ART will apply to list its shares on the Toronto Stock Exchange (TSX). The current management of ART will continue in the same capacity with New ART.

Expect the unexpected; I believe CEO Gignac has just begun to get started in the realignment process. **Progress for the first 120 days of the new CEO's tenure is marked by some dramatic moves. Be prepared for more.**

XGEN who had been 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) \$804.51 m, IMDS.OB at (US) \$19.41 m and DBMI.OB at (US) \$338.37 K. ARA.TO's market capitalization is (CDN) \$18.29 m (US \$20.84) but the technological reference could become more specific as a few private venture based companies come on line with product sales. ARA.TO isn't alone for CALP formerly 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 new ART will have as of 9/30/06 of (US) \$12.4 m and cash equivalent to fund its ongoing activities on the pro forma basis following the closing of the nondilutive financing.

## Company Alert

December 5, 2006

Mid-Quarter  
Update

Henry McCusker

617.559.1080  
hwm@scimitarequity.comPlease read the important  
Disclosures Section  
At the end of this review

## Capitalization

(As of 12/01/06)

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		52,248,981		
Number of Outstanding Preferred Shares		6,341,982 2,000,000	\$1.26 (Conver) \$1.08 (Conver)	N/A
Conversion of Preferred into Common 6,341,982 (0.9036) 2,000,000 (1.0556)		5,730,615 2,111,200		
Convertible Debentures converted into Common		0	N/A	N/A
Number of Share Purchase Warrants Outstanding		4,701,708	\$1.65	
Number of Stock Options Outstanding		3,336,979	\$2.02	7.55 years
	\$0.57 - \$0.74	1,239,000	\$0.62	9.73
	\$0.75 - \$0.99	72,500	\$0.78	9.02
	\$1.00 - \$1.49	499,500	\$1.11	8.19
	\$1.50 - \$1.99	359,900	\$1.75	6.01
	\$2.00 - \$2.99	256,134	\$2.27	6.74
	\$3.00 - \$3.99	498,945	\$3.29	7.12
	\$4.00 - \$4.99	137,000	\$4.60	0.91
	\$6.00 - \$6.99	111,000	\$6.00	2.38
	\$7.00 - \$7.50	163,000	\$7.50	3.44
Total Options and Warrants outstanding		8,038,687		
<b>Fully Dilutive Total</b>		<b>87,847,131</b>		

Company Alert

December 5, 2006

Mid-Quarter Update

Henry McCusker

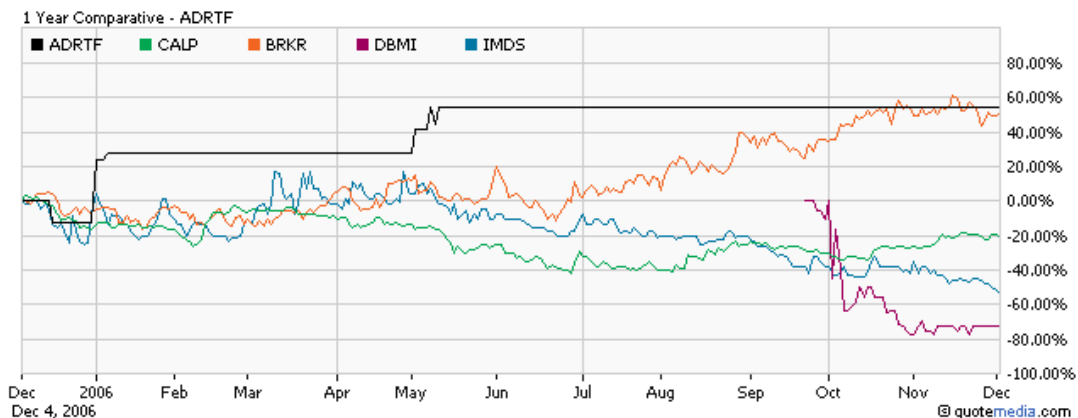
617.559.1080  
hwm@scimitarequity.com

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

Comparables

Company	Ticker Symbol	Price	12 month High-Low	Shares (MM)	Mkt. Cap (\$MM)
ART Advanced Research Technologies	ARA.TO	CDN \$0.335	CDN \$0.95 -0.32	52.25 m	CDN \$18.29 m
Caliper Life Sciences	CALP	\$5.59	\$7.49-3.95	46.59 m	\$264.45 m
Bruker BioSciences	BRKR	\$7.87	\$8.47-4.24	102.23 m	\$804.51 m
DOBI Medical International	DBMI.OB	\$0.0044	\$0.50-0.01	76.90 m	\$338.37 K
Imaging Diagnostic Systems	IMDS.OB	\$0.077	\$0.31-0.08	252.13 m	\$19.41 m

ARA.TO Comparables Chart



ART Advanced Research Technologies, Inc (ARA.TO) = Black  
 Caliper Life Sciences, Inc (CALP) = Green  
 Bruker BioSciences Corp (BRKR) = Orange  
 DOBI Medical International, Inc (DBMI.OB) = Purple  
 Imaging Diagnostic Systems, Inc (IMDS.OB) = Blue

Company Alert

December 5, 2006

Mid-Quarter  
Update

Henry McCusker

617.559.1080  
hwm@scimitarequity.com

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

## 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. There can also be no assurance that the agreement with GE Healthcare will be successful in marketing and distributing its products, or achieve reimbursement from government or private health authorities. The actual schedules for the SoftScan® clinical trials could vary significantly from forecasts due to a number of factors.

Any delay in the initiation and completion of ARA.TO's clinical trials could cause the price of its common shares to decline.

**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](http://www.sedar.com), the Canadian version of Edgar.**

## 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.

<http://www.scimitarequity.com/content/disclosure/disclosure.jsp>

### Compensation for Products and Services

Scimitar makes publicly available an excel format statement of yearly payments by covered companies.

<http://www.scimitarequity.com/content/disclosure/compensation-disclosure.jsp>

### Regulatory Disclosure

Scimitar Equity Research, Inc. (Scimitar) is an equity research firm providing unbiased and insightful analysis for under-followed and small capitalization health science companies. Scimitar is a publisher of research utilizing the "sponsored" or "paid-for" research compensation model to increase visibility and access for these sector specific companies. Scimitar "clearly and prominently" articulates a statement of financial sponsorship and has a compensation arrangement for this quarterly (\$7,500) research review. Scimitar provides qualitative scientific and financial analyses to identify those companies demonstrating real progress towards their vision while meeting quarterly expectations Scimitar delivers this research and analysis of selected segments within the health/life science industry via the world-wide web and our proprietary database to the institutional, advisory and retail investment communities. To maximize transparency in analyst certification, we are required to disclose any potential conflicts of interest thus insuring independence. We do not accept payment of any fees in company stock or any form of security.

<http://www.scimitarequity.com/content/disclosure/regulatory-disclosure.jsp>

### Company Specific Risk Disclosure

The specific risks for those companies covered by Scimitar Equity Research, Inc. (Scimitar) may be greater than the general risks involved with common stock. The majority of the companies covered by Scimitar are development stage companies that are not profitable, and may not be profitable in the foreseeable future. The majority of the companies we cover rely heavily on equity financing to fund their continuing operation. If one or more of these companies is/are unable to sell equity to fund its operations, then that/those particular company/ies may become insolvent. The futures of these companies are reliant on approval of their drugs/diagnostics by the FDA. Also, if clinical and regulatory approvals are granted for one of the company's products, then that does not necessarily guarantee revenue. The companies are subject to manufacturing and regulatory risks as well. These risks could adversely affect future earnings of each company. The shareholders of each company are reliant on the board of directors and management to objectively manage the company in a manner that maximizes shareholder value. The board of directors and management of a particular company may have different objectives or lack competency to reach the shareholders' goals. A misalignment of corporate governance would put that particular company at financial risk. These companies are dependent on key employees and are reliant on current management to run each company. If there is a sudden change of management for any number of reasons, it could affect the future performance of the company. The ability to hire skilled workers and retain them is necessary for each company's success. There is no guarantee that certain patents and trademarks that a particular company claims to will be upheld in the United States or abroad. These intellectual properties, patents and trademarks may be infringed by other companies without financial recourse to a particular company. The company/ies may also be sued by other companies or individuals for patent/trademark infringement, clinical/manufacturing faults, or for any number of legal/contractual reasons. Development stage companies face several competitors in the biotechnology/diagnostics/devices field that may have greater access to capital, clinical expertise, and marketing expertise. Their competitors may have better products, manufacturing capabilities and reach FDA approval with a similar product before these companies. Increased competition in these fields may adversely affect a particular company's stock price. Many companies covered by Scimitar are classified as "penny stocks" and the price of these companies' stocks may move substantially on little volume. Because each company is a penny stock, the companies are subject to increased market price volatility and risk. These companies have an increased degree of volatility relative to the overall market. Risk-averse investors, and all other investors, should be aware of the risks associated with these companies and read all 10-K's and 10-Q's before considering any investment. Investors are expected to be knowledgeable and competent of these risks themselves, or otherwise, speak to their investment advisors before purchasing any securities in the market. Scimitar does not accept any liability for whatever actions an investor takes on their own, or with the advice of their investment advisor after reading Scimitar's research reports.

<http://www.scimitarequity.com/content/disclosure/company-specific-disclosure.jsp>

### Legal Disclaimer

The information, opinions, scientific data, quantitative and qualitative statements contained in these reviews have been obtained from research, trade and statistical services as well as other sources believed to be reliable. The information, opinions, or recommendations contained in these reviews are submitted solely for advisory and informational purposes. Scimitar's opinions and estimates reflect current judgment; they are neither all-inclusive nor can they be guaranteed to be complete or accurate. The opinions expressed are our current opinions as of the date appearing on the review only. Our analysis is subject to possible change without notice. This research contains forward looking statements, which involve risk and uncertainty. The reviews are not a complete analysis of every material fact regarding this company, industry, or security. The information in these reviews are not intended to be used as the primary basis of investment decisions, and because of individual or investment objectives it should not be construed as advice designated to meet the particular investment needs of any investor. Investors are expected to take full responsibility for any and all of their investment decisions. Investors must make investment decisions based on their evaluation of their own investment goals, risk tolerance, and financial condition. Scimitar Equity Research, Inc., our officers, our advisors, and our partners accept no liability whatsoever for any direct or consequential losses arising from any use of the information obtained on or through our web site. The information in these company reviews is not a representation or warranty and is not a solicitation of any offer to buy or sell this security.

<http://www.scimitarequity.com/content/disclosure/legal-disclaimer.jsp>

**Please Read these Important Disclosures! (continued)**

**Research Dissemination**

The information presented on our web site is provided only as an aid for informing those who make their own investment decisions and are not to be used or considered as an offer to sell or solicitation of an offer to buy any financial products. Clients may also receive our research via Thomson Financial: FirstCall- Investext. Security laws of these resident countries vary significantly. This site is intended to be accessed by residents of the United States and by residents of other jurisdictions only where permitted by law.

<http://www.scimitarequity.com/content/disclosure/research-dissemination.jsp>

**Rating Definitions**

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.

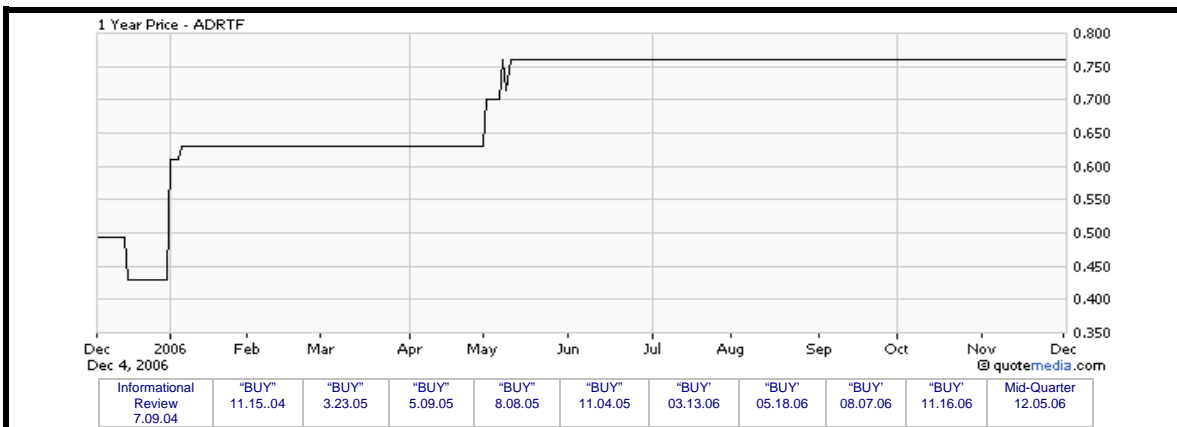
Termination (of coverage): In the event an analyst's coverage is terminated, there is a requirement that firms notify investors when coverage is dropped. This notice must include a final ranking or recommendation. The rule specifically calls for notice to be made in the same manner as in research coverage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

<http://www.scimitarequity.com/content/disclosure/distribution-rankings.jsp>

**Valuation Methodology**

Projecting the future valuation of companies and their innovative technology is at best an "inexact science" and needs to be understood in terms of its intent and vulnerabilities. Scimitar accepts its responsibility to research and prudently perform analysis while incorporating due diligence. The value of science or technology platform, product development cycles, regulatory timelines and filings, collaboration partners, management team and ultimately market initiatives should not be quantitatively modeled too early.

<http://www.scimitarequity.com/content/disclosure/valuation-methodology.jsp>



**Privacy Policy**

Scimitar is committed to respecting the rights of those individuals viewing or utilizing this website, and the protection of any information that might be collected or that which you as a subscriber may choose to share.

<http://www.scimitarequity.com/content/disclosure/privacy.jsp>

**Obtaining Current Disclosures**

<http://scimitarequity.virtual.vps-host.net/content/disclosure/disclosure.jsp>

Applicable current disclosures can be downloaded from our website, by calling the telephone number listed below, or by writing to the address listed below:

Scimitar Equity Research, Inc.  
216 Commonwealth Ave.  
Boston MA, 02116  
617.236.6396

[info@scimitarequity.com](mailto:info@scimitarequity.com)  
[www.scimitarequity.com](http://www.scimitarequity.com)