

May 18, 2009

Sales Execution is a Must in FY09 as Q1/09 Lowered Expectation

Q1/09 Review

Valuation: **\$0.29**

Price at 5/15/09: **CDN \$0.065**

52 Week Range: **CDN \$0.03 - \$0.18**

Market Capitalization: **CDN \$6.15 M**

Fair Value: **\$0.33**

EPS: **- 0.06**

Shares Outstanding: **94.541 M**

Fully Diluted: **161.1 M**

Avg Volume (3 mos): **57,500**

Cash: **\$1.45 M**

Fiscal Year End: **Dec 31**

Exchange: **TSX**



ART has developed products in medical imaging, medical diagnostics and disease research for drug discovery. The Optix® optical molecular imaging system is designed for monitoring physiological changes at the preclinical phase of new drugs; SoftScan® optical breast imaging device is designed to improve the diagnosis and treatment of breast cancer while the Fenestra® line of molecular imaging contrast products provide image enhancement for a wide range of preclinical MicroCT applications providing greater detail in imaging studies.

Outlook: ART's Q1/09 performance was impacted by the general economic and market conditions. We believe sales traction will be tenuous in the short-term while near-term (FY09) penetration will be augmented by the introduction of the new MX3 product but adaption must be realized.

Q1/09 Results: ART reported revenues of \$95,914 with the operating loss increasing by \$145,231, or 11%. Sales resulted from Fenestra (reagent) products and service contracts (\$25,218) with a gross margin ratio of 96%. R&D expenditures net of investment tax credits amounted to \$635,910 while SG&A expenses totaled \$868,946. The net loss was \$1,391,413 or \$0.02 per share. ART has \$ 1,450,037 in cash and working capital of \$2,742,886.

Product Focus: Molecular imaging merges the disciplines of molecular biology, genetic engineering, immunology and biochemistry which enable the visualization of the cellular function and the follow-up of the molecular process in living organisms without perturbing them. The multiple and numerous potentialities of this field are applicable to the diagnosis of diseases such as cancer, and neurological and cardiovascular diseases. This technique optimizes the pre-clinical and clinical tests and activity of potential medications to improve the potential of treatments of disorders.

Competition: Caliper Life Sciences (CALP - \$1.20) is the major comparable, has also restructured, divested assets but had Q1/09 revenues of \$28.5 M with multiple platforms (imaging, reagents and services revenues represented \$10.7 M) within the optical imaging market. SoftScan's comparable, Imaging Diagnostic Systems (IMDS.OB-\$0.0075) is developing a Computed Tomography Laser Breast Imaging System for detecting breast cancer (CT Laser Mammography) but is a single platform company. IMDS is currently in the process of commercializing in certain international markets where approvals have been secured the CTLM platform is being marketed as an adjunct to mammography in clinical research and had no revenues in Q1/09.

FY09 Guidance: Management still projects guidance of 6 - 8% revenue growth. We are maintaining the revenue target, \$5.4 - 6.5 M in our FY09 model.

Valuation: Our valuation scenario is extremely conservative with a comparables index of \$0.33 rendering a blended valuation of \$0.29 given the current shares outstanding (94.5 M). We note the average market capitalization of designated comparables is \$33.77 M or about 5.0x the implied multiple of ARA.TO's market cap of \$6.15 M.

Recommendation: ART could be considered an attractive investment opportunity as it is just above the bottom of its trading range. Investors should focus on the following FY09 issues: operating in a challenged economy, achieving better sales management and execution for Optix® and SoftScan®. ART's stock is still held at a low valuation but should appreciate as the new Optix MX3 product ramps-up, a partnership introduction and federal government assistance materializes to further sustainability without affecting dilution.

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Investment Thesis

The valuation has increased by \$0.03 but, ART's share price is still dependent upon execution of sales and market penetration to appreciate the shares in FY09. ART could be considered an attractive investment opportunity as it is just above the bottom of its trading range as sales execution is realized.

Investors should focus on the following issues: execution of the MX3 introduction and rebuilding the share value. **ART's stock is still held at a low valuation but should appreciate as execution ramps-up, the potential of a partnership materializes and federal government assistance materializes to further sustainability without affecting dilution.**

Reiterating from the previous review, the current institutional investors (11.5%) believe that the ART.TO's future potential outweighs the global economic downturn. Q1/09 Highlights: In 1/09, ART further reduced operating expenses in response to the deteriorating global economic climate. Post quarter Events: ART secured the sale of SoftScan® breast imaging device to Gottingen University in Germany, where the device will be used to measure treatment response for breast cancer; Gottingen has also committed to purchase a second SoftScan system, fully upgraded for use in screening with molecular probes subject to grant funding. ART participated in the American Association of Cancer Research (AACR) conference in Denver, Colorado, which generated a number of important leads.

As of 3/31/09, the worldwide installed-base of Optix systems remains at close to 60 units representing about 10% of the installed-base of the market leader, CALP. However, ART continues to qualify its sales funnel. Thus, during Q1/09, the commercial team added 2 new sales members to enlarge the Optix sales funnel and advance qualified sales leads. ART management feels its sales funnel is now more robust than ever. ART also entered into an additional regional distribution agreement to cover the Indian preclinical imaging market; this distributor now acts as an exclusive distributor for the marketing, sale and distribution of our in vivo optical imaging products throughout India. ART has concluded similar agreements with sales agents in Korea, the UK and Italy which represent additional growth opportunities for its preclinical product portfolio in Asia and Europe at minimal expense.

Competitive products can only detect the intensity of the signal coming from a mouse specimen. ART's soon to be introduce product, Optix MX3 can now effectively exploit the power of time domain technology to move beyond current signal measurement and obtain much richer and complex data. With Optix MX3, scientists are actually able to gain confidence about the exact nature of their results, by differentiating various compound types, and determining their concentration and depth. The new MX3 will feature improved sensitivity and accuracy, increased speed, better stability and reliability, wider fluorophore coverage to incorporate multiple dyes, bioluminescence and Q-dot support, easier manufacturing and serviceability. The completely re-engineered and re-designed Optix platform will allow for cost savings in manufacturing and heightened performance, and will be at the forefront of new technological market drivers, such as the ability to image red fluorescent proteins and Q-dots. A soft launch is set for this month at the European Society of Molecular Imaging (or SMI) meeting in Barcelona, Spain. ART has selected two beta sites for the validation of the new Optix platform that is scheduled to be launched in Q3/09.

Risks

ART markets and sells its Optix®, Fenestra™ and SoftScan® products that depend on specific factors: sales and the resulting revenue progress from the direct marketing initiatives, the multiple SoftScan® initiatives as well as the sales of the Fenestra™ line of molecular imaging contrast products. ART's SoftScan® can now be sold for research purposes, furthering a US regulatory (PMA) approval but risks exist including the costs and time involved in the sales cycle, development and further upgrades to the technology platform. SoftScan® has been issued a CE Mark, a regulatory approval for Canada and the EU but is still in development and yet to be approved by the US FDA regulatory authority. There can be no assurance that ART'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. The Fenestra™ line of imaging agents have been slow but seem to be picking up following the acquisition of these products from Alerion Biomedical. Multiple risks factors still could adversely affect the company's stock price, sustainability and the cash position as there is no capital market access to further fund their development. **A detailed list of the risks and uncertainties affecting ART can be found in its Annual Report or in Form 20-F at www.sedar.com , the Canadian version of Edgar.**

Current Market Dynamics

The current economic crisis has impacted this sector, commonly referred to as the tools and services group. ARA.To will be subjected to delays and budget cuts as biotechs (electing "strategic options), research institutes (experience endowment depreciation) and Pharma companies merging, exiting programs, slowing spending) decelerate equipment purchases.

The research implications, particularly for the biotech and pharmaceutical industry are still enormous. Patent expirations, economics and efficiencies in Pharma companies have driven consolidation within the sector. Regulatory authorities demand that drug developers present a reasonable amount of scientific proof that development compounds bind to designated molecular targets or exert the expected physiological effect in the target tissue(s). The pre-clinical imaging market for this device was estimated to be \$250M in 2008 - 2010. The global pre-clinical and analytical imaging market for this type of device had also been estimated at more than US \$800M, growing to more than US \$1.1B in the next five (5) years; however, the global retrenchment has affected all markets and projections.

Key Catalysts and Milestones

DATE	EVENTS	STATUS
Q1/07	Private Placement of CDN\$1.1 M	Completed
Q4/07	Financing of \$6.0 M	Completed
Q2/08	Implementation of SoftScan® as an Experimental Research Tool in the Treatment and Monitoring Modules for Breast Cancer	On-going
FY08	Final scans using the SoftScan® device completed for the treatment monitoring study at the Sunnybrook Health Sciences Centre in Toronto with significant results (being submitted for publication in a peer-reviewed journal).	Completed
FY08	Experimental probes using the SoftScan® device at Stanford University displayed a high optical contrast ratio for clinical applications in breast cancer diagnosis.	Completed
FY10	US Introduction Of SoftScan®	On-Going

Insider and Institutional Holdings

Holdings	
Holder	% Outstanding*
Management, Directors and Officers	5.25%
Oppenheimer	11.25%

Capitalization

Financial Instruments	# of Shares
Number of Common Shares Outstanding	94,540,592
Number of Outstanding Preferred Shares	61,433,278
Conversion of Preferred into Common (1/9/036)	58,288,046
Warrants Outstanding (4,260,884) and Stock Options (4,049,979)	8,310,863
Fully Dilutive Total	161,139,501

Valuation Analysis

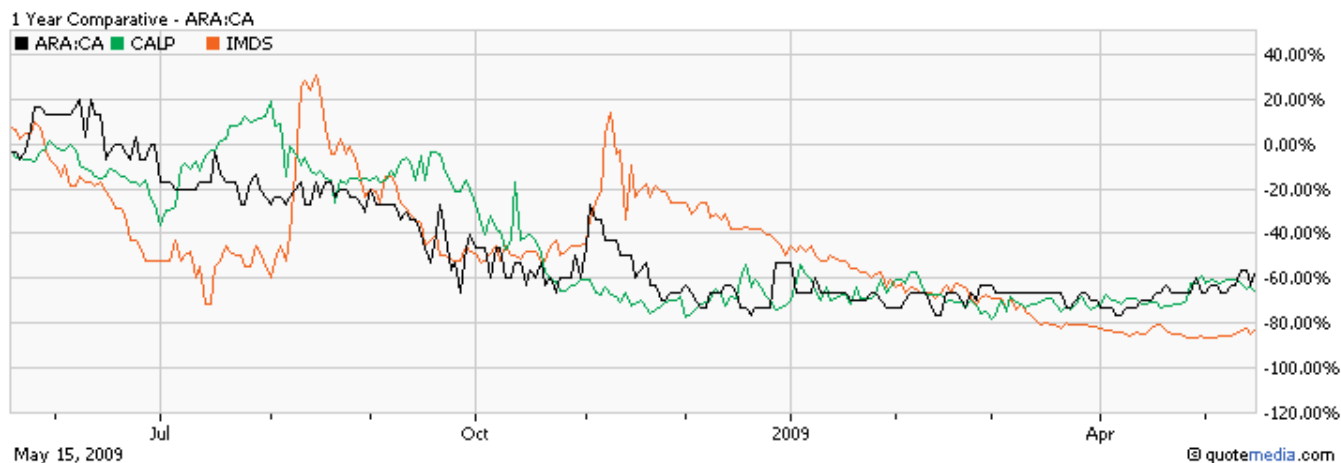
Our valuation scenario is extremely conservative and details a sum-of-the-parts value of **\$0.26** and when merged with a comparables index of **\$0.33** renders a blended valuation of **\$0.29** given the current shares outstanding (**94,541 M**) for 2009.

This fair value estimation is significantly above this stocks current price of **\$0.065** and a trading range of **\$0.03 - \$0.18**.

We had projected a revenue target of **\$5.4 – 6.5 M** in our model. The SoftScan® system has received European and Canadian regulatory approval while Optix® and Fenestra contrast imaging agent are regulatory approved, internally marketed and - now - better positioned to generate revenues. We note the average market capitalization of designated comparables is **\$33.70 M** or about **5.0x** the implied multiple of ARA.TO's market cap of **\$6.15 M**.

We derived our current valuation by using a Blended Price Valuation Table which includes a Sum-of-The-Parts analysis, and a Comparable Company Analysis. We then combine the multiple analyses to create an average Blended Price Valuation Table to obtain our current valuation of **\$0.29**.

Company	Ticker	Price	Market Cap (\$M)	EV (\$M)	Trailing EV/Sales
Caliper Life Sciences	CALP	\$1.20	\$58.46	\$49.51	0.3x
Imaging Diagnostic Systems	IMDS.OB	\$0.001	\$3.07	\$4.32	393.4x
Average of Comparables		\$0.60	\$33.70	\$26.92	196.8x
Advanced Research Technologies	ARA.TO	\$0.065	\$6.15		
Implied Multiples			5.0 x		
Implied fair value per ARA.TO share			\$0.33		



ART Advanced Research Technologies, Inc.
(ARA.TO -Black)

Caliper, Inc (CALP -Green); Imaging

Diagnostics Systems, Inc (IMDS.OB -Orange)

Fenestra™ Contrast Agents

The Fenestra™ line of imaging products provides flexible, long-lasting contrast enhancement for a wide range of imaging applications including vascular, hepatobiliary anatomy and function.

Anatomical Imaging: Researchers and scientists interested in visualizing anatomy in living animals using CT imaging techniques are often faced with the challenge of discerning structures with similar or identical contrast properties. With the Fenestra line of imaging products, you can easily achieve soft tissue or vascular contrast from a single administration that facilitates anatomical delineation of numerous structures.

Functional Imaging: Fenestra provides the opportunity for visual correlation between image contrast and biochemical function. With Fenestra, you can see the physiologic response to a therapeutic intervention or follow the natural etiology of a disease process.

Imaging over the Life of the Animal: Fenestra can be administered repeatedly to animals, the needed imaging data can be collected in the same animal over the entire course of a study. By eliminating the need to sacrifice and assay animals at individual time points, Fenestra can save both time and money.



Products Advantage

Imaging information: Superior soft tissue and vessel delineation in multiple animal species; detailed visualization of solid tumors, tumor vasculature and other important structures; whole body sub-millimeter vascular visualization from a single administration; correlation between image enhancement and biochemical function in certain organs and tissues

Simplicity: Single dose administration; contrast enhancement lasting several hours; excellent safety profile in multiple species; low viscosity, isosmolar formulation and compatible with repeat dosing.

A wide range of applications: Oncology and vascular research; drug screening and development; evaluation of therapeutic efficacy in oncology, anti-angiogenesis, hepatic disease and other disorders; basic research and monitoring of disease etiology and quantification of physiologic parameters such as vessel permeability and tissue perfusion.

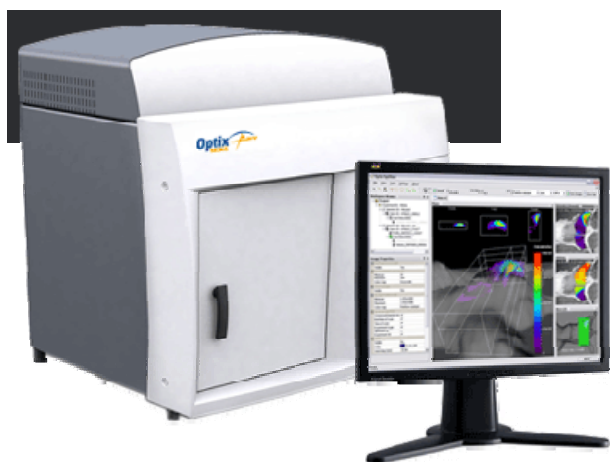
Changing the animal imaging paradigm: Imaging data from the same animal over the duration of the study; precise 3D spatial localization of structures; no need to sacrifice and assay animals at individual time points; no need to engineer genes or reporter systems into the animal; saves time, money and animals.

Optix® MX2 (eXplore Optix® replacement)

ART's new Optix® MX2 system is the high performance optical imaging system designed to characterize, quantify and visualize cellular and molecular events in living animals using fluorescent probes. **Based on a proprietary time domain (TD) approach, the Optix MX2 technology can be applied to further understand the mechanism of disease and evaluate the effects of therapy and disease progression.**

In TD optical imaging, short pulses of light, driven by pulsed laser diodes, are sent to illuminate the specimen under study; where a fluorescent probe is excited and time-of-flight distribution is determined, enabling the uncoupling of depth and concentration.

In addition, a fluorescence lifetime is derived – giving an important parameter in the measurement of tissue environment and allowing the distinction between different fluorescent sources.



Features:
Most Sensitive Molecular Imaging System
Lifetime Analysis
Targeted Applications
Functional 3D Reconstruction

ART has developed an upgrade package that can be applied to any eXplore Optix MX system. This package includes hardware and software, plus on-site service for the upgrade.

A unique characteristic of the ART time domain (TD) technology, nanosecond temporal point resolution enables researchers to acquire in vivo fluorescence lifetime measurements to differentiate fluorophores with similar spectral profiles. In addition, with the use of probes, researchers can identify micro environmental changes in pH, oxygen level, temperature, and other factors known to affect fluorescence lifetime.

The structure of the Optix product is split into three main categories, the Optix® MX2 system enclosure which includes:

- **the illumination, scanning, detection, profilometry and animal support subsystems;**
- **software for data acquisition and**
- **Image analysis and accessories.**

Up to four different laser heads can be installed in the system.

In addition to the system's comprehensive data acquisition application and powerful analysis application, the OptiView software, a 3D Reconstruction module and a CT Fusion module are offered as options. A series of accessories can be purchased separately are also available. These include a workbench, a five-mouse bed and an isolation box.

ART has developed upgrade package(s) that can be applied to any existing MX system. The upgrade package includes parts, software, and on-site service.

SoftScan®

SoftScan® is an optical imaging device for the detection, diagnosis, and management of breast cancer. The information obtained from SoftScan® addresses the critical and unmet need of noninvasive breast tissue analysis. **The need is for a device that provides functional or physiological information about a lesion, such as tissue perfusion and blood oxygen content, and that allows characterization of a lesion as benign or malignant.**



The SoftScan® system is comprised of a patient table, scanning accessories, an optical acquisition unit, and a processing and display workstation installed on a separate mobile unit. **In a clinical setting, the SoftScan® system can be installed in any type of space similar in size to a stereotactic biopsy suite.**

SoftScan's® strategic position as an adjunct to mammography, aiding in diagnosis and treatment monitoring should speed market penetration. Initially, SoftScan® will be competing against diagnostic systems that occasionally include MRI imaging technology. While SoftScan® does have other advantages over competing technologies, we believe that cost-effectiveness will be the key, as SoftScan® will likely be priced 50% lower than MRI imaging systems.

In the future, SoftScan® could penetrate the screening and therapeutic monitoring market, which is currently dominated by X-ray mammography. Close to 80% of breast lesions detected by mammography are thereafter determined to be benign. Screening with SoftScan® could greatly reduce this fraction, sparing the patient from the potentially traumatic experience of a false-positive. **While more expensive than traditional x-ray mammography, SoftScan® is more accurate and does not require that the patient be exposed to radiation or the discomfort caused by compression of the breast.** We believe that these advantages could result in consumer demand for SoftScan® in the screening market. Some of the key anticipated advantages of SoftScan are described below

GROUP	ANTICIPATED ADVANTAGE
Patients	<p>No painful compression of breast No ionizing radiation. Improved diagnosis and quality of care Reduction in need for painful biopsies Can image women with dense breast tissue or who have undergone hormonal therapy</p>
Medical Practitioners	<p>Higher degree of precision in diagnosis and treatment Ability to safely monitor cancer treatments such as chemotherapy, radiotherapy, and surgery Ability to tailor treatment to patient needs</p>
Health Care Providers	<p>Decrease in treatment costs.</p>

Financial Highlights

Q1/09

ART reported revenues of \$95,914 for Q1/09 compared to \$1,241,921 for Q1/08. For Q1/09, the operating loss increased by \$145,231, or 11%, to \$1,479,552 from \$1,334,321 for Q1/08. ART posted a net loss of \$1,391,413 (\$0.02 per share) for Q1/09 compared to \$1,279,456 (\$0.01 per share) for Q1/08.

For Q1/09, sales amounted to \$95,914, compared to \$1,241,921 for Q1/08. During Q1/09, sales mainly resulted from the sale of Fenestra products whereas for Q1/08, ART sold one SoftScan unit, one Optix unit, Fenestra products, and add-ons. During Q1/09 ART sold service contracts, and recognized a total of \$25,218 in services and other revenues.

During Q1/09, ART generated a gross margin ratio of 96% from the sales of its products, compared to 79% for Q1/08. The gross margin ratio generated on the sales of services and other revenues was 69% for Q1/09 compared to 49% for Q1/08. The increase in the product gross margin ratio during Q1/09 resulted from a different sales product mix compared to Q1/08. During Q1/09, most of the sales resulted from the Fenestra product line which explains the higher gross margin ratio as compared to Q1/08, during which ART sold more of its other product lines, namely Optix and SoftScan.

R&D expenditures for Q1/09, net of investment tax credits, amounted to \$635,910, compared to \$854,650 for Q1/08. The decrease of the R&D during Q1/09, compared to Q1/08 mainly resulted from the cost reduction plan which was put in place during the first days of 2009. As a result, the R&D headcount decreased by approximately 15% compared to the R&D headcount at the end of Q1/08. During Q1/09, the R&D team pursued the development of the next generation of the Optix system and continued to support Optix users, while collaborating with clients for the development of applications to demonstrate the utility of the system in research areas such as oncology, cardiology and neurology. SG&A expenses for Q1/09 totaled \$868,946, compared to \$1,283,254 for Q1/08. The decrease of the SG&A expenses during Q1/09, compared to Q1/08 mainly resulted from the cost reduction plan which took effect during the first days of 2009.

ART reduced its workforce and implemented a four day shared workweek schedule for about 20% of the workforce. Senior management has taken at least a 10% salary cut. The net loss for Q1/09 was \$1,391,413 or \$0.02 per share, compared to \$1,279,456 or \$0.01 per share for Q1/08.

As of Q1/09, ART had \$ 1,450,037 in cash and cash equivalents, and a working capital of \$2,742,886.

ART is also considering financing options, such as assistance programs for businesses offered by the different levels of government, to strengthen their financial situation.

Financial Statement

ADVANCED RESEARCH TECHNOLOGIES, INC.					
UNAUDITED CONDENSED STATEMENTS OF (CONTINUING) OPERATIONS					
Three Months Ended	FY	FY	FY	FY	
(\$USDollars)	2005	2006	2007	2008	Mar
	(12 months)	(12 months)	(12 months)		
Revenues	4,125,550	3,081,776	2,063,227	4,954,828	95,914
Costs and expenses:					
Cost of sales: Product	2,379,802	1,642,181	915,347	1,323,140	2,498
Cost of sales: Maintenance	409,783	137,835	14,103	87,655	7,705
Research and development	9,154,960	7,837,352	4,724,842	2,704,682	635,910
Selling, general and administrative	3,918,236	4,263,450	5,045,525	5,536,464	868,946
Amortization	285,806	424,163	660,306	828,583	60,407
Total Costs and Expenses	13,359,002	12,886,083*	10,430,973	9,069,729	1,565,263
Operating loss	(12,023,037)	(11,584,323)	(9,272,503)	(525,706)	(1,479,552)
Net loss	(13,129,184)	(8,754,767)	(8,623,447)	(4,819,230)	(1,391,413)
Basic and diluted net loss per common share	(\$0.31)	(\$0.18)	(\$0.13)	(\$0.05)	(\$0.02)
Basic and diluted weighted average number of common shares outstanding	42,664,523	48,775,554	63,967,183	94,540,592	94,540,592
Balance Sheet Metrics					
	FY	FY	FY	FY	
	2005	2006	2007	2008	Mar
Cash & Equivalents	4,859,142	6,546,936	561,325	1,466,086	1,450,037
Total Assets	15,232,209	12,499,034	12,640,710	11,603,992	9,350,378
Shareholders equity	9,368,813	8,305,975	9,074,753	8,702,063	7,093,584

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

Please review our multiple disclosures section. 05/18/09

* Includes severance package Q3-06 totaling \$361,118

Please Read these Important Disclosures!

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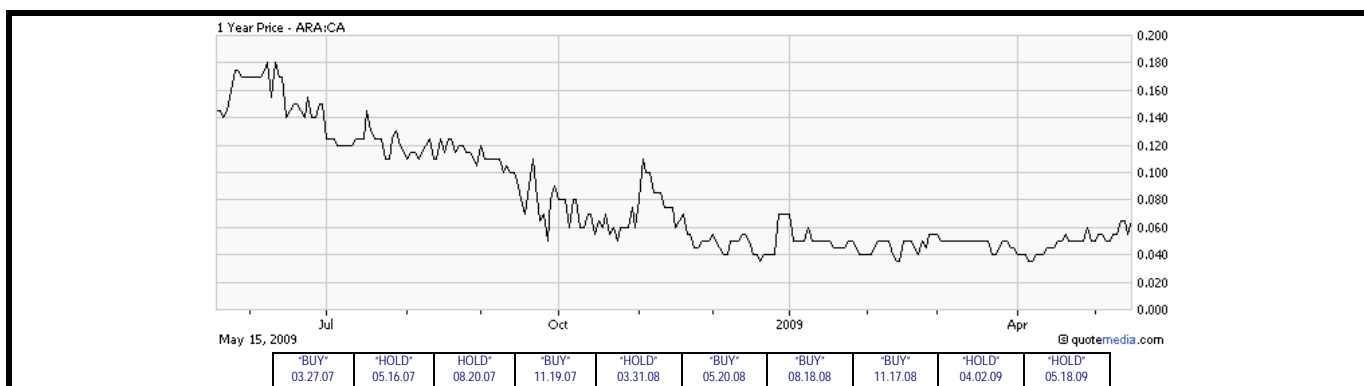
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In these current volatile market/economic times; Scimitar has stepped back from making specific price targets. Valuation should be understood in terms of an objective quantitative model and a comprehensive qualitative explanation that enlightens investors to expectation and potential. Models reflect current judgment only; they are neither all-inclusive nor can they be guaranteed. Analysis and models are subject to change based on share pricing, share/capitalization increases or decreases, regulatory status and certainly market conditions. <http://www.scimitarequity.com/content/disclosure/valuation-methodology.jsp>



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