UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

Dated: March 31, 2006

Commission File Number 001-32295

ADHEREX TECHNOLOGIES INC.

(Translation of registrant's name into English)

4620 Creekstone Drive, Suite 200
Research Triangle Park
Durham North Carolina 27703
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F. Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b)(7): ☐

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes ☐ No ☒

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82 - _____.

Adherex Technologies Inc.

Form 6-K

On March 31, 2006, the Company issued its annual report, which contains its consolidated financial statements for the twelve-month fiscal period ended December 31, 2005 as well as the related Management's Discussion and Analysis. A copy of the annual report is attached hereto as Exhibit 99.1. On March 31, 2006, the Company also issued a press release announcing its financial results for the twelve-month fiscal period ended December 31, 2005, a copy of which is attached hereto as Exhibit 99.2, and its Notice of Annual General Meeting of Shareholders and related Management Proxy Circular, a copy of which is attached hereto as Exhibit 99.3. These Exhibits are incorporated herein in their entirety by reference. In addition, the Company filed with the SEC its Annual Report on Form 20-F, which includes its consolidated financial statements for the fiscal period ended December 31, 2005 as well as the related Management's Discussion and Analysis.

The information in this Form 6-K (including Exhibits 99.1 and 99.3) shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

EXHIBIT INDEX

Exhibit Number	Description
99.1	Annual Report for the twelve month fiscal period ended December 31, 2005
99.2	The Registrant's Press Release dated March 31, 2006
99.3	Notice of Annual General Meeting of Shareholders and related Management Proxy Circular

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ADHEREX TECHNOLOGIES INC.
(Registrant)

Date: March 31, 2006

By: */s/ James A. Klein, Jr.*
James A. Klein, Jr.
Chief Financial Officer

A MESSAGE TO OUR SHAREHOLDERS

This past year was highlighted by the presentation of important safety and promising efficacy data for ADH-1, the advancement of ADH-1 into Phase II trials and the licensing from GlaxoSmithKline (GSK) of the potential "blockbuster" oncology drug, eniluracil. While 2005 has been a disappointing year with regards to our share price, the work that we have done has laid a strong foundation for the ultimate driver of value in biotechnology – data on the safety and efficacy of the drug candidates. I would like to briefly describe some of these accomplishments in 2005 and outline how they have positioned us for further progress in 2006.

In 2005, we made solid progress in the development of our novel, molecularly-targeted agent, ADH-1 (Exherin™), which is now in Phase II. The focus of our clinical development of ADH-1 has been establishing its safety profile in patients – and in this regard, our drug has performed remarkably well. We have escalated the administered dose through a 50-fold range in the Phase I setting with no significant side effects limiting its use to date. Of course, Adherex will continue to monitor the safety of ADH-1 closely as our clinical trials progress.

Ultimately, the usefulness of our cancer drugs will be primarily determined by their ability to affect cancers where current therapies are inadequate. The demonstration of tolerability of the drug to date enables us to now focus on the effectiveness of ADH-1 in the Phase II setting. Importantly, we have already observed evidence of anti-tumor activity with single agent ADH-1 therapy in five patients with advanced, resistant cancers in our Phase I studies. This activity has included tumor shrinkage, repetitive and protracted normalization of tumor biomarkers and prolonged stable disease in a variety of N-cadherin positive cancers (esophageal, adrenocortical, lung, colon and fallopian tube cancer).

This past year, we performed a study on the expression of N-cadherin in over 700 patient tumor samples to explore which cancers ADH-1 might target most effectively. These data indicate that N-cadherin is expressed in multiple tumor types and provide solid support for selecting certain cancers for treatment with ADH-1. We have already begun to apply this data to help focus our Phase II clinical trial designs to maximize our chance of success. One goal in our Phase II program is to characterize and quantify the relationship between N-cadherin expression and the response to ADH-1. This information would enable us to more effectively select the patients most likely to respond to our drug.

Adherex is developing eniluracil to make 5-FU, already one of the most commonly used anti-cancer drugs in the world, more effective, better tolerated and orally active. Adherex continually looks for drug candidates, which we believe we have unique capabilities to effectively develop, to provide our shareholders a more diversified portfolio of drugs and, thereby, reduce the development risk profile for the company. To that end, in July 2005, we obtained from GSK without any upfront cash payment, an exclusive license for the development of eniluracil for all disease indications. The agreement brought with it data from GSK's multiple previous clinical trials, a significant supply of eniluracil raw material and a $3 million investment from GSK.

So what does this mean to our investors? It means that we now have another major oncology drug in our portfolio, which has had millions of dollars invested by GSK in its development. We believe that our new development strategy presents a relatively straightforward approach. Because so much prior development work has already been done, many of the major hurdles have already been surmounted. GSK has already demonstrated in 15 Phase I and Phase II trials that the combination of eniluracil and 5-FU had satisfactory safety and anti-cancer activity to support Phase III development. However, when three subsequent Phase III trials failed to reach their endpoints, GSK discontinued development. Adherex has since determined through further mechanism of action studies the reasons why those trials failed – specifically, that the 5-FU and eniluracil doses and schedules of administration used by GSK were not right. We have now demonstrated in animal models and

human cell lines that with the proper dose, dose ratio and schedule, eniluracil and 5-FU can be an effective combination. And, in less than six months, we have returned eniluracil back to human clinical trials with the goal of conducting Phase III registration trials as early as 2007.

To meet these timelines, we have some essential work to complete in 2006. To make sure that we design future Phase III clinical trials of eniluracil and 5-FU correctly and to establish the data necessary for our regulatory filings, we need to do some limited Phase I and Phase II clinical studies to establish the safety of our new dose ratio as well as to properly size the Phase III trials. But as there is already extensive clinical experience with the combination, these studies, while essential, can be quite limited in scope.

We expect that 2006 will be a pivotal year for Adherex. For eniluracil, we plan to continue with the aggressive development program that we outlined at the beginning of the year, with focused and relatively expeditious clinical trials intended to provide optimal dosing and safety data. For ADH-1, while single agent studies will continue, moving into combination trials in 2006 is a very important step forward as nearly every contemporary cancer therapy uses some type of drug combination. For this reason, we intend to begin combination trials, on our own and through collaborations, to evaluate ADH-1 in combination with other cancer therapies. With the knowledge garnered from our earlier and ongoing trials, we now have the information necessary to determine which tumor types and which drug combinations make the most sense for clinical exploration. Finally, we will continue our efforts this year to build a more sustainable portfolio by moving some of our other compounds closer to the clinic. As one example, some of our orally-active, small molecule N-cadherin antagonists have been shown to be up to 200 times more potent than ADH-1 in our preclinical studies. Building on our clinical experience with ADH-1, we expect to move our lead small molecule candidate into a clinical development program by early 2007.

So what have we not accomplished? First, the randomized trial of STS has not yet begun because of the continued, deliberate committee review required at the Children's Oncology Group. Nonetheless, we remain committed to the cost-effective development of the product, to working with COG and, most importantly, to the opportunity that it represents for children with cancer. Second, we continue to lag behind in relative market value to that of many of our peers with comparable products in development. We have laid the foundation for market knowledge and acceptance through numerous meetings about the Adherex opportunity with investment funds and analysts. Ultimately, we believe that our value will be driven by clinical data, and we anticipate that 2006 will be a robust year in that regard.

In summary, this will be another important and active year for us. We have a deep biotechnology platform based on molecules (cadherins) that have been shown to be fundamental in cancer's ability to invade and metastasize. We have a relatively straightforward development strategy to make an already widely-used drug, 5-FU, even better. And we have Phase III trials for some of these products on the foreseeable horizon. With advanced clinical programs and a strong pipeline, we believe Adherex has the fundamentals necessary for success.

With your support, we will continue our efforts to build value for you, our shareholders – and to one day bring important new medicines to cancer patients and their families.

Sincerely,

William P. Peters, MD, PhD, MBA
Chairman and CEO

March 24, 2006

DISCOVERING AND DEVELOPING
INNOVATIVE CANCER MEDICINES

Adherex

2005 Management's
Discussion & Analysis
and Financials

Management's Discussion and Analysis

For the Fiscal Year Ended December 31, 2005

Presentation

The following management's discussion and analysis ("MD&A") should be read in conjunction with our December 31, 2005 audited consolidated financial statements and the related notes, which are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All references to "years," unless otherwise noted, refer to our twelve-month fiscal year, which prior to July 1, 2004, ended on June 30.

The year ended December 31, 2005 ("fiscal 2005") represents the first full year since we changed our fiscal year end to December 31 from June 30. The six-month period ended December 31, 2004 was our transition year and covered the period July 1, 2004 through December 31, 2004 ("six-month fiscal transition 2004"). For ease of reading of MD&A, we refer throughout to the periods reported as follows:

January 1, 2005 – December 31, 2005	Fiscal 2005
July 1, 2004 – December 31, 2004	Six-Month Fiscal Transition 2004
July 1, 2003 – June 30, 2004	Fiscal 2004
July 1, 2002 – June 30, 2003	Fiscal 2003

Functional and Reporting Currency

Effective January 1, 2005, the Company determined that its functional currency had changed from the Canadian dollar ("CAD") to the United States ("U.S.") dollar because the majority of its transactions are denominated in U.S. dollars as the result of increasing activities undertaken in the U.S. Concurrent with this change in functional currency, the Company adopted the U.S. dollar as its reporting currency. The change was effected for prior periods as follows: assets and liabilities were translated into U.S. dollars at the prevailing exchange rates at each balance sheet date; revenues and expenses were translated at the average exchange rates prevailing during each reporting period and equity transactions were translated at the prevailing historical exchange rates at each transaction date. Adjustments resulting from the translations are included in the cumulative translation adjustments in shareholders' equity and total $5,850 at December 31, 2004 and 2005. Unless otherwise stated all amounts are in U.S dollars.

Share Consolidation

On July 20, 2005, we announced that our Board of Directors had approved a share consolidation of our common stock at a ratio of one-for-five. The share consolidation had previously been approved by our shareholders at the Annual and Special Meeting held on April 29, 2005. The share consolidation became effective at the close of business on July 29, 2005 and reduced the number of shares of common stock then outstanding from approximately 213 million to approximately 43 million**.** The share consolidation equally affected all of our common shares, stock options and warrants outstanding at the effective date. The number of shares of our common stock, stock options and warrants issued and outstanding and the basic and diluted weighted-average shares outstanding, as well as per share data and per stock option data, have been retroactively adjusted for all periods presented to reflect the one-for-five share consolidation.

Forward-Looking Statements

The following discussion contains forward-looking statements regarding our financial condition and the results of operations that involve significant risks and uncertainties, some of which are outside of our control. We are

subject to risks associated with the biopharmaceutical industry, including risks inherent in research and development, preclinical testing, manufacture of drug substance to support clinical studies, toxicology studies, clinical studies of our compounds, uncertainty of regulatory agencies, enforcement and protection of our patent portfolio, the need for future capital, potential competitors, the ability to attract and maintain collaborative partners, dependence on key personnel, and the ability to successfully market our drug compounds. Our actual results might differ materially from those expressed or implied in these forward-looking statements. For further information regarding such risks, please refer to our public filings available at www.sedar.com and www.sec.gov.

2005 Key Company Accomplishments

- Entered into a development and license agreement with GlaxoSmithKline ("GSK") covering two drugs, eniluracil and ADH-1. The agreement includes the in-license of GSK's oncology product, eniluracil, by Adherex and an option for GSK to license Adherex's lead biotechnology compound, ADH-1.
- Closed an $8.5 million private placement in July 2005, which included a $3.0 million investment by GSK.
- Initiated several clinical trials of ADH-1 as a single agent, including: a Phase Ib/II trial in Canada with dosing once every three weeks and a Phase Ib/II clinical trial in Europe exploring dosing once a week.
- Presented our global development plans for eniluracil, including data which indicate that the dose, dose ratio, and schedule of administering eniluracil and 5-fluorouracil ("5-FU") are critical to achieving the optimal therapeutic effectiveness of the combination. Adherex anticipates returning eniluracil to Phase III trials as early as 2007.
- Received an investigational new drug application ("IND") clearance from the Food and Drug Administration ("FDA"), enabling Adherex to commence U.S.-based clinical trials of eniluracil.
- Received Orphan Drug Designation ("ODD") from the FDA for the use of eniluracil in combination with fluoropyrimidines (including 5-FU) for the treatment of hepatocellular (liver) cancer.
- Presented clinical data on our Phase I trial of ADH-1 at the 2005 ASCO Annual Meeting indicating that ADH-1 was well tolerated and showed evidence of anti-tumor activity in three patients with advanced chemotherapy resistant cancer; with one of these patients achieving a rapid and durable partial response, defined as a reduction of at least 50% in tumor size. Subsequently, we reported evidence of anti-tumor activity in two additional patients in our Phase I experience, for a total of five patients.

Overview

We are a biopharmaceutical company focused on cancer therapeutics, with a preclinical and clinical portfolio. The following product candidates are in clinical development:

- ADH-1 (Exherin™) is a molecularly targeted anti-cancer drug currently in Phase Ib/II and Phase II clinical studies. ADH-1 is a small peptide that selectively targets N-cadherin, a protein that plays a major role in holding together and stabilizing cells that make up blood vessels and certain tumor cells. We could start a monotherapy Phase III program for ADH-1 as early as 2007.
- Eniluracil is a dihydropyrimidine dehydrogenase ("DPD") inhibitor that was previously under development by GSK for the treatment of cancer. Eniluracil is being developed to enhance the therapeutic value and effectiveness of 5-FU, one of the world's most widely-used oncology agents and a current first-line therapy for a variety of cancers including, colon, rectal, breast, head and neck, and ovarian. We are implementing an accelerated development program to support the initiation of a Phase III clinical program that we anticipate to commence as early as 2007.
- Sodium Thiosulfate ("STS") is a chemoprotectant which has been shown in Phase I and Phase II clinical studies conducted by investigators at Oregon Health & Science University ("OHSU") to reduce the

disabling loss of hearing in patients, both adults and children, treated with platinum-based anti-cancer agents. We continue to work with the Children's Oncology Group to initiate a randomized STS trial in children.

- N-Acetylcysteine ("NAC") is a bone marrow protectant that is the subject of ongoing Phase I investigation at OHSU under investigator IND for use as a bone marrow protectant in the context of platinum-based chemotherapy.

We also have a preclinical program which includes (i) backup peptides and small chemical molecule successors to ADH-1, (ii) molecules targeted to inhibiting the metastatic spread of some cancers and (iii) peptides that combine both angiolytic and antiangiogenic properties. We have synthesized peptide antagonists and agonists for a wide array of cadherin adhesion molecules, which will facilitate our efforts to select other drug candidates to move into clinical development, particularly in the following three areas:

- Small molecule N-cadherin antagonists. We have identified a series of small chemical molecules that, in our preliminary studies, have displayed potent N-cadherin antagonism activity. Unlike ADH-1, these molecules are not peptides but are smaller and simpler in structure. Small chemical molecules are often (i) active after oral administration, (ii) more stable and (iii) have different potency and toxicity profiles than peptides. In 2006, we plan to advance our lead candidate from this program through the preclinical development and toxicology studies required for an IND application which we expect to file with the FDA in the first half of 2007.
- OB-cadherins. Another family of cadherins, OB-cadherin, is reported to be involved through several mechanisms in the metastatic spread of certain cancers to sites distant from the original tumor. Metastatic disease is a major determinant of a patient's survival and quality-of-life. We are developing OB-cadherin peptides and small molecule antagonists to reduce or slow down the metastatic spread of tumors, such as breast and prostate cancers.
- VE-cadherin. Like N-cadherin, VE-cadherin is important in the structural integrity of certain tumor blood vessels. We have designed peptide VE-cadherin antagonists that are under preclinical investigation as vascular targeting agents in cancer. We believe that the development of VE-cadherin antagonists may be synergistic with N-cadherin antagonists.

In addition to our own development efforts, we intend to continue to pursue collaborations with other pharmaceutical companies, government entities or corporate collaborators with respect to these and other cadherin agonist and antagonist molecules. Our drug discovery and development efforts are supported by more than 40 issued U.S. patents and more than 50 pending patents worldwide that we either own or have exclusively licensed.

We have not received any revenues to date through the sale of products and do not expect to have significant revenues until we either are able to sell our product candidates after obtaining applicable regulatory approvals or we establish collaborations that provide us with funding, such as licensing fees, milestone payments, royalties, upfront payments or otherwise. As of December 31, 2005, our deficit accumulated during development stage was $52.4 million.

Our operating expenses will depend on many factors, including the progress of our drug development efforts and the potential commercialization of our product candidates. Research and development ("R&D") expenses, which include expenses associated with clinical development activities, manufacturing of drug substance, employee compensation, research contracts, toxicology studies, and internal and outsourced laboratory activities, will be dependent on the results of our drug development efforts. General and administration ("G&A") expenses include expenses associated with headcount and facilities, recruitment of staff, insurance and other administrative matters associated with our facilities in the Research Triangle Park, N.C. ("RTP") in support of our drug development programs. The amortization of acquired intellectual property rights relates to the intellectual property acquired

through our acquisition of Oxiquant, Inc. (“Oxiquant”) in November 2002 and the loss on impairment of mesna, resulting from the lack of current plans to advance mesna to the next stage of development. Settlement of Cadherin Biomedical Inc. (“CBI”) litigation expense refers to our acquisition of CBI to reacquire the non-cancer intellectual property rights relating to our cadherin technology and to settle the lawsuit between CBI and Adherex.

Drug development timelines and expenses are variable and collaborative arrangement milestone payments occur only when the relevant milestone is achieved. Management may in some cases be able to control the timing of expenses by accelerating or decelerating preclinical and clinical activities. Accordingly, we believe that period-to-period comparisons are not necessarily meaningful and should not be relied upon as a measure of future financial performance. Our actual results may differ materially from the expectations of investors and market analysts. In such an event, the prevailing market price of our common stock may be materially adversely affected. Due to the differing lengths of reporting financial periods in the MD&A, results in this period are not directly comparable. Accordingly, percentage and amount of changes in these results in these periods are not meaningful. Where applicable, useful comparisons may be possible through annualizing the six-month fiscal transition 2004 period by multiplying those results by two. This method, however, does not reflect actual results for the extrapolated periods.

GlaxoSmithKline Relationship

On July 14, 2005, we entered into a development and license agreement with GSK. The agreement included the in-license by Adherex of GSK’s oncology product, eniluracil, and an option for GSK to license ADH-1. As part of the transaction, GSK invested $3.0 million in our July 2005 Private Placement—see “Liquidity and Capital Resources” section below. Under the terms of the agreement relating to eniluracil, Adherex received an exclusive license to develop eniluracil for all indications and GSK retained options to buy-back and assume development of the compound at various points in time. If GSK exercises an option to buy-back eniluracil, Adherex could receive upfront payments, development milestone payments and sales milestone payments of up to $120 million in aggregate, plus up to double-digit royalties on annual net sales, dependent upon if and when in the compound’s development an option is exercised. In addition, if GSK elects to buy-back eniluracil, GSK would become responsible for all further development and associated expenses. If GSK does not exercise any of its buy-back options, Adherex would be free to develop eniluracil alone or with other partners and would be required to pay GSK development and sales milestones and double-digit royalties.

Adherex also granted GSK an option to receive a worldwide, exclusive license for ADH-1 for all indications. If the ADH-1 option is exercised, a series of upfront payments, development milestone payments and sales milestone payments to Adherex would be triggered of up to approximately $100 million in aggregate plus double-digit royalties on annual net sales. In addition, if GSK exercises the ADH-1 option, GSK would become responsible for all further development and associated expenses of the ADH-1 development program.

Executive Financial Overview

The following table presents certain financial information for the year ended December 31, 2005, the six-month fiscal transition 2004 ended December 31, 2004 and the years ended June 30, 2004 and 2003 (U.S. dollars in thousands):

	Year Ended December 31, 2005	Six Months Ended December 31, 2004	Year Ended June 30, 2004	Year Ended June 30, 2003
Revenue	$ -	$ -	$ -	$ -
Operating expenses:				
Research and development	12,441	3,443	3,561	2,745
General and administration	3,182	2,727	3,481	1,996
Amortization of acquired intellectual property rights	2,723	1,234	2,323	1,265
Loss from operations	(18,346)	(7,404)	(9,365)	(6,006)
Loss on impairment of intellectual property	(3,539)	-	-	-
Settlement of Cadherin Biomedical Inc. litigation	-	(1,283)	-	-
Interest expense	(11)	-	(331)	(11)
Interest income	361	171	162	72
Loss before income taxes	(21,535)	(8,516)	(9,534)	(5,945)
Recovery of future income taxes	2,290	451	849	462
Net loss	$ (19,245)	$ (8,065)	$ (8,685)	$ (5,483)

Net Loss and Cash Flow from Operations

Fiscal 2005 versus Six-Month Fiscal Transition 2004

The net loss for the fiscal year ended December 31, 2005 was $19.2 million as compared to $8.1 million for the six-month fiscal transition 2004. The increase in the fiscal 2005 net loss relates to the difference in reporting periods between the two fiscal periods and increased R&D spending relating to ADH-1 and eniluracil. In addition, during the fiscal year 2005 we recorded an impairment charge of $3.5 million associated with the intellectual property relating to the mesna compound, for which we do not have any further developmental plans. At December 31, 2005, we determined that the carrying value of the intellectual property related to mesna was fully impaired. The impairment was based on the lack of further developmental plans resulting from the addition of eniluracil to our R&D portfolio, along with the financial resources additionally devoted to the development of ADH-1. G&A expenses for the fiscal 2005 were lower than the six-month fiscal transition 2004 amounts on an annualized basis primarily due to costs associated with our move from Canada to the U.S. in 2004.

Cash used in operating activities for fiscal year 2005 totaled $12.3 million or approximately $1.0 million per month. Non-cash items included in the net loss of $19.2 million in the fiscal year 2005 included $2.7 million for the amortization of intellectual property, $3.5 million for the impairment of intellectual property relating to mesna, $1.4 million of expense relating to stock options issued to employees and $0.3 million of expense relating to stock options issued to consultants. Cash used in operating activities for the six-month fiscal transition 2004 totaled $4.7 million. Non-cash items included in the net loss of $8.1 million for the six-month fiscal transition 2004 included $1.2 million for the amortization of intellectual property, CBI litigation expense with a stock value of $1.3 million and $0.6 million of expense relating to stock options issued to employees.

Six-Month Fiscal Transition 2004 versus Fiscal 2004

The net loss for the six-month fiscal transition 2004 was $8.1 million as compared to $8.7 million for the fiscal year ended June 30, 2004. If the $8.1 million net loss for the six-month fiscal transition 2004 was annualized, the

amount would be $16.2 million, representing a significant increase over the $8.7 million net loss for the fiscal year ended June 30, 2004. The primary reasons for this increase in the six-month fiscal transition 2004 are due to increased R&D activities associated with ADH-1, increased G&A expenses associated with the move from Canada to the U.S. and the $1.3 million charge associated with the common stock issuance to settle the CBI litigation.

Cash used in operating activities for the six-month fiscal transition 2004 totaled $4.7 million, as compared to $6.0 million for the fiscal year ended June 30, 2004. Non-cash items included in the net loss of $8.7 million for the fiscal year ended June 30, 2004 primarily consisted of $2.3 million associated with the amortization of the intellectual property rights.

Fiscal 2004 versus Fiscal 2003

The net loss for the fiscal year ended June 30, 2004 was $8.7 million as compared to $5.5 million for the fiscal year ended June 30, 2003. The increase is primarily due to increased R&D expenses associated with ADH-1 and STS, increased G&A expenses associated with the move to the U.S. from Canada and a full year of amortization of intellectual property during fiscal 2004.

Cash used in operating activities for the fiscal year ended June 30, 2004 totaled $6.0 million, as compared to $4.6 million for the fiscal year ended June 30, 2003. Non-cash items included in the net loss of $5.5 million for the fiscal year ended June 30, 2003 primarily consist of $1.3 million associated with the partial year of amortization of intellectual property from the acquisition of Oxiquant in November 2002, which consisted of an exclusive worldwide license to mesna from Rutgers, The State University of New Jersey (“Rutgers”), and certain intellectual property from OHSU relating to the use of STS and NAC.

Research and Development Expense

Fiscal 2005 versus Six-Month Fiscal Transition 2004

R&D expense for the fiscal year ended December 31, 2005 totaled $12.4 million as compared to $3.4 million during the six-month fiscal transition 2004 representing a significant increase even if the $3.4 million six-month amount was annualized to $6.8 million. The increase is primarily due to the advancement of ADH-1 and the acquisition of eniluracil as part of the GSK transaction and subsequent clinical advancement. During fiscal 2005, we initiated the Phase Ib/II programs and Phase II programs for ADH-1 thereby increasing the ADH-1 expense. The advancement of these clinical programs resulted in the additional expense associated with preclinical support and the manufacture of drug substance for ADH-1. In total, approximately $8.2 million in internal and external financial resources were devoted to ADH-1 during fiscal year 2005. In addition, we commenced the Phase I program for eniluracil, along with the necessary preclinical activities to support the clinical programs. In total, we dedicated approximately $2.6 million in internal and external financial resources to the eniluracil compound.

The R&D expense of $3.4 million incurred during the six-month fiscal transition 2004 was primarily associated with the Phase I program for ADH-1, which included the clinical activities, preclinical support for the Phase I studies and the manufacture of drug substance for the ADH-1 program. R&D expenditures were offset by investment tax credits during the fiscal 2005 and six-month fiscal transition 2004 by nil and $ 0.2 million, respectively.

Six-Month Fiscal Transition 2004 versus Fiscal 2004

R&D expense for the six-month fiscal transition 2004 totaled $3.4 million as compared to $3.6 million for the fiscal year ended June 30, 2004. If the six-month fiscal transition 2004 amount of $3.4 million was annualized to $6.8 million it would represent a significant increase over fiscal 2004. The primary reason for the increase in R&D spending is attributed to the fact that we obtained funding in December 2003 and April 2004 and thus were

able to carry-out the drug development plan during the six-month fiscal transition 2004. R&D expense consisted primarily of preclinical, clinical and drug manufacture activities associated with the advance of ADH-1. R&D expenditures were offset by investment tax credits during the six-month fiscal transition 2004 and fiscal year 2004 by $0.2 million and $0.1 million, respectively.

Fiscal 2004 versus Fiscal 2003

R&D expense for fiscal 2004 totaled $3.6 million as compared to $2.7 million in fiscal 2003. The increase in spending is primarily driven by the additional financial resources available in fiscal 2004, the advancement of ADH-1 during 2004 from a preclinical to a clinical orientation, the closure of the Ottawa facilities and associated headcount reduction during 2003.

R&D expense for fiscal 2004 consisted of the manufacture of drug substance, employee compensation and contract research organizations. During fiscal 2003, R&D expense consisted primarily of employee compensation in support of preclinical activities.

General and Administration Expense

Fiscal 2005 versus Six-Month Fiscal Transition 2004

G&A expense in fiscal 2005 totaled $3.2 million as compared to $2.7 million in the six-month fiscal transition 2004. If the $2.7 million G&A expense in the six-month fiscal transition 2004 was annualized it would equate to approximately $5.4 million, which would have been greater than fiscal 2005. The primary reasons for this difference includes higher employee stock compensation expense recorded in G&A during the six-month fiscal transition 2004, as compared to fiscal 2005, additional expense in the six-month fiscal transition 2004 for the establishment of offices in the U.S., severance payments in the six-month fiscal transition 2004 associated with the closing of the Ottawa office and relocation expense in the six-month fiscal transition 2004 associated with the relocation of certain employees from Canada to the U.S.

G&A expense in fiscal 2005 primarily consisted of employee compensation, external professional fees and other administrative activities. For the six-month fiscal transition 2004, G&A expense primarily consisted of expenses associated with the relocation from Canada to the U.S.

Six-Month Fiscal Transition 2004 versus Fiscal 2004

G&A expense in the six-month fiscal transition 2004 totaled $2.7 million as compared to $3.5 million in fiscal 2004. If the $2.7 million in the six-month fiscal transition 2004 is annualized it would equate to approximately $5.4 million which would represent an increase as compared to fiscal 2004. The primary reason for the difference is that activities were curtailed because of a lack of funds in fiscal 2004 and the additional expense in the six-month fiscal transition 2004 associated with the move to the U.S. from Ottawa.

G&A expense in the six-month fiscal transition 2004 primarily consisted of employee compensation, external professional fees and other administrative activities. G&A expense for fiscal 2004 primarily consisted of costs associated with the establishment of the U.S. operations.

Fiscal 2004 versus Fiscal 2003

G&A expense in fiscal 2004 totaled $3.5 million as compared to $2.0 million in fiscal 2003. The increase is primarily related to the establishment of our presence in the U.S., relocation of certain staff to the U.S. from Canada and recruitment expense associated with the building of the U.S. staff. In addition, the improved liquidity due to December 2003 and May 2004 financings provided the funds necessary for these activities to occur.

G&A expense for fiscal 2004 primarily consisted of costs associated with the establishment of the U.S. operations. G&A expense in fiscal 2003 primarily consisted of the termination of the Company’s former Chief Executive Officer, outside professional fees and employee compensation.

Amortization of Acquired Intellectual Property Rights

Fiscal 2005 versus Six-Month Fiscal Transition 2004

The expense associated with the amortization of intellectual property rights was $2.7 million in fiscal 2005 as compared to $1.2 million for the six-month fiscal transition 2004. The expense relates to the value of anti-cancer intellectual property acquired in the acquisition of Oxiquant in November 2002 that is being amortized on a straight-line basis over a 10-year period. The increase is due to twelve months in fiscal 2005 as compared to six-months in the six-month fiscal transition 2004.

As a result of the addition of eniluracil to the Company's R&D portfolio, along with the financial resources devoted to the development of ADH-1, we currently do not have any further developmental plans for mesna. Therefore, at December 31, 2005, we determined that the carrying value of the intellectual property relating to mesna, which had a book value of $3.5 million and a recovery of future income tax benefit of $1.3 million, was fully impaired. Therefore, we expensed the amount and included the write-off in the Statement of Operations. Should the facts and circumstances change, we could reinitiate the mesna development program as we continue to have rights to the compound under our license agreement with Rutgers. The remaining acquired intellectual property is estimated to be amortized at $2.2 million per year on a straight-line basis for its remaining life of approximately six and one-half years.

Future taxes recovered totaled $2.3 million for fiscal 2005 as compared to $0.5 million in the six-month fiscal transition 2004. The recovery of future taxes, as recognized on the balance sheet, relates to the intellectual property acquired in the acquisition of Oxiquant in November 2002. These rights have no tax basis and give rise to a future tax liability that will be realized in income over the useful life of the assets through a recovery of future income taxes charged to earnings. At this time, Oxiquant, the entity that holds the acquired intellectual property, has no other material activity and the future tax assets of our other corporate entities cannot be used to offset this future tax liability. The future tax recovery will continue in direct proportion to the amortization of the intellectual property unless the Company changes its tax strategy with respect to Oxiquant.

In addition, as of December 31, 2005, we had $17.4 million in unrecorded net tax assets arising primarily from tax loss carry forwards and scientific research and experimental development expenses which cannot be recognized until it is more likely than not that these assets will be realized.

Six-Month Fiscal Transition 2004 versus Fiscal 2004

The expense associated with the amortization of intellectual property rights was $1.2 million in the six-month fiscal transition 2004 as compared to $2.3 million for the fiscal 2004. The difference is due to the six months of expense during the six-month fiscal transition 2004 versus twelve months in the fiscal 2004.

Fiscal 2004 versus Fiscal 2003

The expense associated with the amortization of intellectual property rights was $2.3 million in the fiscal 2004 as compared to $1.3 million for the fiscal 2003. The difference is due to the fact the Oxiquant merger was completed in November 2003 hence there was only a partial year of amortization as compared to a full year during fiscal 2004.

Settlement of Cadherin Biomedical Inc. Litigation

Adherex acquired CBI in December 2004 to settle the litigation between the two companies and to re-acquire the non-cancer rights relating to our cadherin-based intellectual property. We believe the reacquisition of non-cancer rights may be beneficial when seeking any future collaborations with other pharmaceutical and biotech companies.

We have recorded the issuance of common shares of Adherex to acquire CBI for approximately $1.2 million and the associated transaction expenses of approximately $0.1 million as settlement of CBI litigation on our

Statement of Operations, resulting in an expense of $1.3 million for the six-month fiscal transition 2004. There were no such charges in any other periods during the Company's history.

Interest Expense

Fiscal 2005 versus Six-Month Fiscal Transition 2004

The interest expense recorded in fiscal 2005 related to certain leasehold improvements being financed by our landlord on our facility in the U.S. There were no interest expenses incurred during the six-month fiscal transition 2004. Because we have subleased the facility and the loan payments were assumed by the tenant who subleased the facility, we do not anticipate future interest expense charges relating to this facility unless the tenant defaults on their payments.

Six-Month Fiscal Transition 2004 versus Fiscal 2004

There were no interest expenses incurred during the six-month fiscal transition 2004 and $0.3 million incurred during fiscal 2004. This fiscal 2004 expense relates to the accretion of a portion of the face value of the convertible notes issued in June 2003 and December 2003 ascribed to the note's equity-like features. The notes were converted into equity in December 2003 and therefore did not accrue future interest expense.

Fiscal 2004 versus Fiscal 2003

During fiscal 2004, we had $0.3 million of interest expense relating to the convertible notes issues in June and December 2003. The minor interest expense recorded in fiscal 2003 related to the financing of leasehold improvements in the Ottawa facility.

Interest Income

Fiscal 2005 versus Six-Month Fiscal Transition 2004

Interest income was $0.4 million for fiscal 2005 and $0.2 million for the six-month fiscal transition 2004. A lower cash balance during the fiscal 2005 was offset by the higher interest yields during fiscal 2005.

Six-Month Fiscal Transition 2004 versus Fiscal 2004

Interest income for the six-month fiscal transition 2004 and fiscal 2004 was $0.2 million for both years. If the interest income for the six-month period was annualized, it would suggest interest income of $0.4 million for an equivalent twelve-month period, which would be an increase. This increase was due to higher cash balances during the six-month fiscal transition 2004 as compared to fiscal 2004 due to the successful completion of financings in December 2003 and April 2004 and higher interest yields during the six-month fiscal transition 2004.

Fiscal 2004 versus Fiscal 2003

Interest income for fiscal 2004 was $0.2 million as compared to $0.1 million in fiscal 2003. The increase is due to lower cash balances during fiscal 2003 as compared to fiscal 2004.

Quarterly Information

The following table presents selected consolidated financial data for each of the last eight quarters through December 31, 2005 (dollars in thousands, except per share information):

Period	Net Loss for the Period	Basic and Diluted Net Loss per Common Share
March 31, 2004	$ (2,391)	$ (0.08)
June 30, 2004	$ (2,681)	$ (0.08)
September 30, 2004	$ (2,756)	$ (0.08)
December 31, 2004	$ (5,309)	$ (0.15)
March 31, 2005	$ (3,119)	$ (0.09)
June 30, 2005	$ (4,622)	$ (0.13)
September 30, 2005	$ (4,404)	$ (0.11)
December 31, 2005	$ (7,100)	$ (0.17)

The net loss increase in the last quarter is due to the impairment of intellectual property associated with the mesna compound. It is important to note that the $3.5 million impairment charge was a non-cash expense to our Statement of Operations. In addition, R&D expenses have increased during the period from June 30, 2005 through December 31, 2005 as a result of the execution of the clinical development plans for ADH-1. Our improved liquidity from the completion of financings in December 2003, May 2004 and July 2005 has allowed for these increased R&D activities to occur.

During the quarter ended December 31, 2004, we incurred $1.3 million associated with the acquisition of CBI, which consisted of $1.2 million in common stock and $0.1 million in cash for transaction-related expenses.

Liquidity and Capital Resources

We have financed our operations since our inception on September 3, 1996 through the sale of equity and debt securities and have raised gross proceeds totaling approximately $54.5 million through December 31, 2005. We have incurred net losses and negative cash flow from operations each year, and we have an accumulated deficit of approximately $52.4 million as of December 31, 2005. We have not generated any revenues to date through the sale of products. We do not expect to have significant revenues or income, other than interest income, until we are able to sell our product candidates after obtaining applicable regulatory approvals, we achieve development milestones or receive option payments under our GSK agreement, and/or establish additional collaborations that provide us with funding, such as licensing fees, royalties, milestone payments or upfront payments.

The net cash flow used in operating activities for fiscal 2005 was $12.3 million or an average of approximately $1.0 million per month, as compared to $4.7 million for the six-month fiscal transition 2004 or an average of approximately $0.8 million per month. The increase in the average monthly net cash flow used is due to our expanding drug development activities associated with our product candidates, including the addition of eniluracil during the fourth quarter of fiscal 2005.

On July 20, 2005, we completed a private placement of equity securities totaling $8.5 million, resulting in net proceeds of $8.1 million after deducting broker fees and other expenses of $0.4 million. This financing included a $3.0 million equity investment by GSK.

As of December 31, 2005, our consolidated cash, cash equivalents and short-term investments were $13.1 million, as compared to $17.5 million at December 31, 2004. This decrease reflects the continued funding of our corporate operations including the development and advancement of our product candidates partially offset by the July 2005 Private Placement. Working capital at December 31, 2005 and December 31, 2004 was approximately $10.7 million and $16.1 million, respectively.

We believe that our cash, cash equivalents and short-term investments will be sufficient to satisfy our anticipated capital requirements until December 31, 2006. We are considering all financing alternatives, and are immediately seeking to raise additional funds for operations from current stockholders and other potential investors, most likely in a private placement of common stock. This disclosure is not an offer to sell, nor a solicitation of an offer to buy our securities. While we are striving to achieve the above plans, there is no assurance that such funding will be available or obtained on favorable terms. At December 31, 2005, there was significant doubt that the Company would be able to continue as a going concern. The financial statements do not reflect adjustments in the carrying values of the assets and liabilities, the reported revenues and expenses, and the balance sheet classification used, that would be necessary if the going concern were not appropriate, and such adjustments could be material. Our projections of further capital requirements are subject to substantial uncertainty. Our working capital requirements may fluctuate in future periods depending upon numerous factors, including: results of our research and development activities; progress or lack of progress in our preclinical studies or clinical trials; our drug substance requirements to support clinical programs; our ability to achieve option payments or milestone payments under our current GSK collaboration or any other collaborations we establish

that provide us with funding; changes in the focus, direction, or costs of our research and development programs; the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing our patent claims; competitive and technological advances; the potential need to develop, acquire or license new technologies and products; establishment of marketing and sales capabilities; our business development activities; new regulatory requirements implemented by regulatory authorities; the timing and outcome of any regulatory review process or our commercialization activities, if any.

To finance our operations, we will need to raise substantial additional funds through either the sale of additional equity, the issuance of debt, the achievement of development milestones or receipt of option payments under our agreement with GSK, the establishment of additional collaborations that provide us with funding, the out-license or sale of certain aspects of our intellectual property portfolio, or from other sources. There can be no assurance that we will be able to raise the necessary capital or that such funding will be available on favorable terms.

In May 2004, we terminated a CAD$0.3 million revolving line of credit with the Royal Bank of Canada that had been outstanding since 2002. In addition, through December 31, 2004, we have received CAD$2.4 million of research tax credits including potential research tax credit receivables of CAD$0.3 million and have received CAD$0.3 million in other government grants.

Since our inception, we have not had any material off-balance sheet arrangements, and inflation has not had a material effect on our operations. We had no material commitments for capital expenses as of December 31, 2005.

Financial Instruments

Our financial instruments consist primarily of short-term investments. These investments will ultimately be liquidated to support our ongoing operations.

Our investment policy is to manage investments to achieve, in the order of importance, the financial objectives of preservation of principal, liquidity and return on investment. Investments may be made in U.S. or Canadian obligations and bank securities, commercial paper of U.S. or Canadian industrial companies, utilities, financial institutions and consumer loan companies, and securities of foreign banks provided the obligations are guaranteed or carry ratings appropriate to the policy. Securities must have a minimum Dun & Bradstreet rating of A for bonds or R1 low for commercial paper. The policy also provides for investment limits on concentrations of securities by issuer and maximum-weighted average time to maturity of twelve months. This policy applies to all of our financial resources.

The policy risks primarily include the opportunity cost of the conservative nature of the allowable investments. As the main purpose of the Company is research and development, the Company has chosen to avoid investments of a trade or speculative nature.

Investments with original maturities at date of purchase beyond three months, and which mature at or less than twelve months from the balance sheet date, are classified as current. Investments are carried at book value plus accrued interest with unrealized gains and losses recognized as investment income. Short-term investments of $1.2 million consist of corporate commercial paper with maturities at acquisition from 154 to 175 days at December 31, 2005 and were nil at December 31, 2004. The market value of the investments at December 31, 2005 approximated their book value. Short-term investments at June 30, 2004 totaled $7.1 million which consisted of corporate bonds with maturities at acquisition from 110 to 159 days. Since these investments were purchased just prior to June 30, 2004, their market value was also not significantly different from their book value.

During the fiscal year 2005, the six-month fiscal transition 2004 and fiscal 2004, we earned interest income of $0.4 million, $0.2 million and $0.2 million, respectively, on our cash, cash equivalents and short-term investments.

Leasehold Inducements

On August 31, 2005, we entered into agreements to lease a new office and laboratory facility and sublease our existing facility. As an incentive to enter into the new lease, we received free rent and capital inducements. We received a 50 percent discount for the new facility for the first 24 months of the 84-month lease term. In conjunction with the transaction, we also received inducements in the form of furniture, equipment and leasehold improvements with a fair market value of approximately $0.5 million and, in return, we provided furniture, equipment and leasehold improvements with a net book value of $0.2 million with an approximate fair market value of $0.1 million.

We will record rent expense on a straight line basis by accumulating the total rental payments and allocating them over the 84 month term of the lease which expires on August 31, 2012. The difference between the cash payment and lease expense will be charged to deferred lease inducements.

Contractual Obligations

Since our inception, we have not had any material off-balance sheet arrangements, and inflation has not had a material effect on our operations. We had no material commitments for capital expenses as of December 31, 2005.

The following table represents our contractual obligations and commitments at December 31, 2005 (in thousands of U.S. dollars):

	Less than 1 year	1-3 years	4-5 years	More than 5 years	Total
Englert Lease (1)	$ 108	$ 224	$ 205	$ —	$ 537
Maplewood Lease (2)	143	584	755	663	2,145
McGill License (3)	311	345	382	489	1,527
OHSU License (4)	-	-	-	-	-
Rutgers License (4)	25	100	100	-	225
Total	$ 587	$ 1,253	$ 1,442	$ 1,152	$ 4,434

(1) In April 2004, we entered into a lease for our facilities in RTP. Amounts shown assume the maximum amounts due under the lease. This facility has now been subleased to another company that is responsible for payments until March 31, 2008; however, in the event of their default Adherex would become responsible for the obligation. In addition, Adherex is contractually obligated under the lease until August 31, 2010.

(2) In August 2005, we entered into a lease for new office and laboratory facilities in RTP. Amounts shown assume the maximum amounts due under the lease. We received lease and capital inducements to enter into the lease, including a 50 percent discount for the first 24 months of the 84-month lease term and capital inducements with a fair market value of $0.5 million.

(3) Research obligations shown. Royalty payments, which are contingent on sales, are not included. Penalties for failure to achieve clinical trial progress goals are not included.

(4) Royalty and milestone payments that we may be required to pay, which are contingent on sales or progress of clinical trials, are not included.

In connection with the OHSU License Agreement and the Rutgers License Agreement, we are required to pay specified amounts in the event that we achieve certain Adherex-initiated clinical trial milestones. In the near-term, a potential milestone payment to OHSU of up to $0.5 million may be required if we complete a randomized

clinical trial with STS in children, which has not yet commenced. There can be no assurance that we will commence and complete that clinical trial when anticipated, if at all.

Under the terms of the development and license agreement with GSK, should GSK not exercise any of its options to buy back eniluracil, we would be free to develop eniluracil alone or with other partners. If we file a New Drug Application ("NDA") with the FDA, we may be required to pay development milestones of $5.0 million to GSK. Depending upon whether the NDA is approved by the FDA and whether eniluracil becomes a commercial success, we may be required to pay up to an additional $70.0 million in development and sales milestones for the initially approved indication, plus double digit royalties based on annual net sales. If we pursue other indications, we may be required to pay up to an additional $15 million to GSK per FDA-approved indication.

Research and Development

Our research and development efforts have been focused on the development of cancer therapeutics and our cadherin targeting technology platform and include ADH-1, eniluracil, STS, NAC, mesna and various cadherin technology-based preclinical programs.

We have established relationships with contract research organizations, universities and other institutions which we utilize to perform many of the day-to-day activities associated with our drug development. Where possible, we have sought to include leading scientific investigators and advisors to enhance our internal capabilities. Research and development issues are reviewed internally by our Chief Scientific Officer, other members of our executive management and our supporting scientific staff. Major development issues are presented to the members of our Scientific and Clinical Advisory Board for discussion and review.

Research and development expenses totaled $12.4 million, $3.4 million and $3.6 million and $2.7 million for the fiscal year 2005, the six-month fiscal transition 2004, fiscal 2004 and fiscal 2003, respectively.

ADH-1 is a molecularly-targeted anti-cancer drug currently in Phase Ib/II and Phase II clinical studies. We incurred $8.2 million of internal and external expenses on this compound during fiscal 2005. ADH-1 is a small peptide molecule that selectively targets N-cadherin, a protein that plays a major role in holding together and stabilizing cells that make up blood vessels and certain tumor cells.

Eniluracil, which we acquired as part of the development and license agreement with GSK, is a DPD inhibitor that was previously under development by GSK for oncology indications. During fiscal 2005, we incurred $2.6 million of internal and external expenditures for eniluracil, primarily to commence a Phase I clinical program. Eniluracil is being developed to enhance the therapeutic value and effectiveness of 5-FU, one of the world's most widely-used oncology agents and a current first-line therapy for a variety of cancers including colon, rectal, breast, head and neck and ovarian. We have obtained new proprietary data regarding the optimal usage of eniluracil in combination with 5-FU, which formed the basis of a patent application filed by us. We are implementing an accelerated development program to support the initiation of a Phase III clinical program as early as 2007; however, there can be no assurance that we will commence or complete that clinical trial when planned, if at all.

STS is a chemoprotectant that has been shown in Phase I and Phase II clinical studies conducted by investigators at OHSU to reduce hearing loss in patients, both adults and children, treated with platinum-based agents. We continue to work with the Children's Oncology Group to initiate a randomized STS trial in children.

NAC is being developed as a bone marrow protectant to prevent the bone marrow toxicity caused by certain anti-cancer drugs. Upon the completion of ongoing investigator-sponsored Phase I clinical studies at OHSU, we plan to re-evaluate the commercial potential of NAC.

Mesna was under development as a chemoenhancer directed at reducing the development of resistance by cancer cells to certain chemotherapeutics agents. Although we continue to have rights to mesna under our license

agreement with Rutgers, we do not currently have any further development plans for this compound. As a result, we have recorded a loss on impairment associated with the intellectual property related to mesna during fiscal 2005 of $3.5 million. Should conditions warrant, we may elect to re-commence further development of this compound in the future.

Our preclinical pipeline includes back-up peptides and small chemical molecule successors to ADH-1, molecules being developed to inhibit the metastatic spread of some cancers; and peptides that combine both angiolytic and antiangiogenic properties.

As of December 31, 2005, our internal and external spending for each research and development program is as follows (in thousands of U.S. dollars):

	Fiscal Year Ended December 31, 2005	Six Months Ended December 31, 2004	Fiscal Years Ended June 30,		Cumulative From September 3, 1996 to December 31, 2005
			2004	2003	
ADH-1	$ 8,248	$ 2,550	$ 2,503	$ 2,082	$ 18,991
Eniluracil	2,552	-	-	-	2,552
Other anti-cancer	374	358	341	432	2,027
Total anti-cancer	11,174	2,908	2,844	2,514	23,570
STS	472	263	628	144	1,507
Other chemoprotectants and enhancers	17	-	-	16	33
Total chemoprotectants and enhancers	489	263	628	160	1,540
Other discovery projects	778	272	89	71	2,583
Transdermal drug delivery	-	-	-	-	689
Total research and development program expense	$ 12,441	$ 3,443	$ 3,561	$ 2,745	$ 28,382

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with Canadian and U.S. GAAP requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. These estimates are based on assumptions and judgments that may be affected by commercial, economic and other factors. Actual results could differ from those estimates.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. We believe that the assumptions, judgments and estimates involved in our accounting for acquired intellectual property rights could potentially have a material impact on our consolidated financial statements. The following description of critical accounting policies, judgments and estimates should be read in conjunction with our December 31, 2005 consolidated financial statements.

Functional and Reporting Currency

Effective January 1, 2005, the Company determined that its functional currency had changed from the Canadian dollar to the U.S. dollar because the majority of its transactions are denominated in U.S. dollars as the result of increasing activities undertaken in the United States. Concurrent with this change in functional currency, the Company adopted the U.S. dollar as its reporting currency.

The change was effected for prior periods as follows: assets and liabilities were translated into U.S. dollars at the prevailing exchange rates at each balance sheet date; revenues and expenses were translated at the average exchange rates prevailing during each reporting period, and equity transactions were translated at the prevailing historical exchange rates at each transaction date. Adjustments resulting from the translations are included in the cumulative translation adjustments in shareholders' equity and totaled $5.9 million at December 31, 2005 and 2004.

Acquired Intellectual Property Rights

At December 31, 2005, our acquired intellectual property rights had a net book value of $14.2 million and relate to the intellectual property acquired in the acquisition of Oxiquant in November 2002, which include: (i) STS, a hearing protectant for patients undergoing platinum-based chemotherapy, (ii) NAC, a bone marrow protectant for patients undergoing certain chemotherapy and (iii) mesna, a chemoenhancer to reduce a cancer's resistance to certain chemotherapy. In accordance with the Canadian Institute of Chartered Accountants ("CICA") Section 3063 "Impairment of Long-Lived Assets," we review our intellectual property to determine if any events or changes have impaired the carrying value of the assets. We determine impairment by comparing the undiscounted future cash flows estimated to be generated by the asset to their respective carrying amounts. At December 31, 2005, we determined the carrying value of mesna, which has a book value of $3.5 million, was fully impaired.

Subsequent to the addition of eniluracil into our development plans, we determined that we would not allocate any resources to the further development of mesna. We still retain rights to mesna under our license agreement and might elect to re-commence further development of this compound in the future.

The remaining intellectual property continues as an asset as required under Canadian GAAP and is being amortized on a straight-line basis over its estimated useful life of ten years from the date of acquisition.

Under U.S. GAAP, management has determined that the intellectual property is in-process research and development ("IPRD"), a concept which is not applicable under Canadian GAAP. IPRD is not capitalized under U.S. GAAP, but rather expensed at the time of acquisition. Consequently, the entire cost of the IPRD of CAD$31.2 million associated with the Oxiquant acquisition is reflected as a reconciling item in the December 31, 2005 consolidated financial statements, footnote 20, U.S. Accounting Principles, which reconciles Canadian GAAP to U.S. GAAP. In addition, during fiscal 2005 the loss on impairment was not recorded under U.S. GAAP because the amount was previously expensed as IPRD.

Stock-Based Compensation

Effective January 1, 2002, the Company adopted the recommendations of the CICA set out in Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" ("CICA 3870"). Until January 1, 2004, this standard only required the expensing of the fair value of non-employee options, with note disclosure of the fair value and effect of employee and director options on the financial statements. For fiscal years beginning after January 1, 2004, the fair value of all options granted must be expensed in the Statement of Operations. Upon adopting this new standard, the Company elected to retroactively adjust retained earnings without restatement. On July 1, 2004, the Company increased the deficit by $1.7 million and increased contributed surplus by the same amount.

Deferred Leasehold Inducements

Leasehold inducements consist of periods of reduced rent and other capital inducements provided by the lessor. The leasehold inducements relating to the reduced rent periods are deferred and allocated over the term of the lease.

Outstanding Share Information

The outstanding share data for the Company as of December 31, 2005, is as follows (in thousands):

	Number Outstanding
Common shares	42,629
Warrants	13,029
Stock options	5,284
Total	60,942

Canadian to U.S. GAAP

The Company presents its consolidated financial results in accordance with Canadian GAAP. Significant differences exist between Canadian and U.S. GAAP and are presented in footnote 20 in the consolidated financial statements.

Recent Accounting Pronouncements

Financial Instruments

In January 2005, the CICA issued Section 1530, “Comprehensive income,” Section 3855, “Financial instruments -recognition and measurement,” and Section 3865, “Hedges.” The new standards will be effective for interim and annual financial statements commencing in 2007. Earlier adoption is permitted. Most significantly for us, the new standards will require presentation of a separate statement of comprehensive income. We currently are evaluating the impact of adopting these standards on our consolidated financial statements.

Embedded Leases

In December 2004, the CICA issued EIC-150, “Determining whether an arrangement contains a lease,” which provides guidance to companies that enter into arrangements that are not legally a lease, but conveys a right to use a tangible asset, in return for a payment or series of payments. The standard was effective for arrangements entered into or modified after January 1, 2005. The adoption of this standard did not impact us as we have not entered into such arrangements.

Operating and Business Risks

We operate in a highly competitive environment that involves significant risks and uncertainties, some of which are outside of our control. We are subject to risks inherent in the biopharmaceutical industry, including:

- a history of significant losses and no revenues to date; our product candidates are at an early stage of development, and we may never successfully develop or commercialize our product candidates;
- the possibility of delayed or unsuccessful human clinical trials with our product candidates could result in an increase to our development costs;

- the need to raise additional capital to fund operations;
- the ability to maintain or enter into new collaborations might adversely impact the development of our drug candidates;
- GSK might not exercise any of their options under our development and license agreement which might hinder development of two of our most important drug candidates;
- the Children's Oncology Group may not conduct clinical trials with STS as planned;
- we may experience difficulties in managing our growth as we expand;
- we may expand our business through new acquisitions that could disrupt our business, harm our financial condition and dilute current stockholders' ownership;
- we may lose key personnel or be unable to attract and retain additional personnel, which might adversely impact the development of our drug candidates;
- if our licenses to proprietary technology owned by others terminate or expire, we may not be able to successfully develop our product candidates;
- the enforcement and protection of our patents and licenses related to our product candidates, the possible infringement of the rights of others and potential off-label use or sale of our product candidates by competitors might harm our financial condition;
- the reliance on third-party contract manufacturers to produce drug substance;
- we conduct business internationally and are subject to laws and regulations of several countries, which may affect our ability to access regulatory agencies and the enforceability of our licenses;
- exchange rate fluctuations;
- the ability to obtain regulatory approval of our drug candidates;
- the uncertainty of market acceptance of our products, the competitive environment, pricing and reimbursement of our product candidates, if and when they are commercialized;
- the potential for product liability lawsuits in clinical trials or from commercial activities;
- the use of hazardous materials and chemicals in our research and development;
- new accounting or regulatory pronouncements may impact our future financial results;
- the fact we are a foreign investment company under U.S. tax law which has an adverse tax consequence for our U.S. shareholders;
- the volatile nature of our common stock price;
- the large number of common stock to be issued, through future financings, under currently issued warrants and stock options and warrants and stock options that may be issued in the future could substantially dilute our shareholders; and
- if we lose our foreign private issuer status, we will likely incur additional expenses to comply with U.S. securities law.

Our financial results will fluctuate from period to period and therefore are not necessarily meaningful and should not be relied upon as an indication of future financial performance. Such fluctuations in quarterly results or other factors beyond our control could affect the market price of our common stock. These factors include changes in earnings estimates by analysts, market conditions in our industry, announcements by competitors, changes in pharmaceutical and biotechnology industries, and general economic conditions. Any effect on our common stock could be unrelated to our longer-term operating performance. For a more detailed discussion of our risk factors, please refer to our public filings available at *www.sedar.com* and *www.sec.gov*.

Management's Statement of Responsibility

To the Shareholders of Adherex Technologies Inc.

Management is responsible for the preparation and presentation of the consolidated financial statements. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgments.

Management has developed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits.

The Audit Committee, which is comprised of independent directors, reviews the consolidated financial statements, considers the report of the external auditors, assesses the adequacy of the Company's internal controls and recommends to the Board of Directors the independent auditors for appointment by the shareholders. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The consolidated financial statements were audited by PricewaterhouseCoopers LLP, the external auditors, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) on behalf of the shareholders.

/s/ William P. Peters
William P. Peters, MD PhD MBA
Chief Executive Officer and Chairman

/s/ James A. Klein Jr.
James A. Klein, Jr.
Chief Financial Officer

February 10, 2006

To the Shareholders of Adherex Technologies Inc.

We have audited the accompanying consolidated balance sheets of Adherex Technologies Inc. and its subsidiaries as of December 31, 2005, December 31, 2004 and June 30, 2004 and the related consolidated statements of operations, cash flows and shareholders' equity for the year ended December 31, 2005, the six months ended December 31, 2004 and for the years ended June 30, 2004, and 2003 and for the period from September 3, 1996 to December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance the Standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Adherex Technologies Inc. and its subsidiaries at December 31, 2005, December 31, 2004 and June 30, 2004 and the results of its operations and its cash flows for the year ended December 31, 2005, the six months ended December 31, 2004 and for the years ended June 30, 2004 and 2003 and for the period from September 3, 1996 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Accounting principles generally accepted in Canada vary in certain respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in footnote 20 to the consolidated financial statements.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company requires additional financing that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Raleigh, North Carolina
February 10, 2006

Adherex Technologies Inc.
(a development stage company)
Consolidated Balance Sheets
U.S. dollars and shares in thousands, except per share information

	December 31, 2005	December 31, 2004	June 30, 2004
Assets			
Current assets			
Cash and cash equivalents	$ 11,916	$ 17,473	$ 13,599
Cash pledged as collateral	53	75	31
Short-term investments	1,175	-	7,071
Accounts receivable	15	17	39
Investment tax credits recoverable	129	252	280
Prepaid expense	59	11	119
Other current assets	52	84	419
Total current assets	13,399	17,912	21,558
Other long-term assets	-	10	36
Capital assets	374	652	419
Leasehold inducements	518	-	-
Acquired intellectual property rights	14,154	20,415	19,496
Total assets	**$ 28,445**	**$ 38,989**	**$ 41,509**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable	$ 1,385	$ 1,079	$ 628
Accrued liabilities	1,279	700	839
Total current liabilities	2,664	1,779	1,467
Other long-term liabilities	13	140	92
Deferred lease inducement	537	-	-
Future income taxes	5,174	7,463	7,126
Total liabilities	**8,388**	**9,382**	**8,685**
Commitments and contingencies			
Shareholders' equity			
Common stock, no par value; unlimited shares authorized; 42,629 shares, 36,535 shares and 35,891 shares issued and outstanding, respectively	41,268	34,324	33,565
Contributed surplus	25,338	22,587	20,258
Cumulative translation adjustment	5,850	5,850	2,404
Deficit accumulated during development stage	(52,399)	(33,154)	(23,403)
Total shareholders' equity	**20,057**	**29,607**	**32,824**
Total liabilities and shareholders' equity	**$ 28,445**	**$ 38,989**	**$ 41,509**

Signed on behalf of the Board of Directors

/s/ Raymond Hession
Raymond Hession
Director

/s/ Arthur T. Porter
Arthur T. Porter, MD, MBA
Director

(The accompanying notes are an integral part of these consolidated financial statements)

Adherex Technologies Inc.
(a development stage company)
Consolidated Statements of Operations
U.S. dollars and shares in thousands, except per share information

	Year Ended December 31, 2005	Six Months Ended December 31, 2004	Years Ended June 30, 2004	Years Ended June 30, 2003	Cumulative From September 3, 1996 to December 31, 2005
Revenue	$ -	$ -	$ -	$ -	$ -
Operating expenses:					
Research and development	12,441	3,443	3,561	2,745	28,382
General and administration	3,182	2,727	3,481	1,996	14,786
Amortization of acquired intellectual property rights	2,723	1,234	2,323	1,265	7,545
Loss from operations	(18,346)	(7,404)	(9,365)	(6,006)	(50,713)
Other income (expense):					
Loss on impairment of intellectual property	(3,539)	-	-	-	(3,539)
Settlement of Cadherin Biomedical Inc. litigation	-	(1,283)	-	-	(1,283)
Interest expense	(11)	-	(331)	(11)	(352)
Other income	-	-	-	-	98
Interest income	361	171	162	72	1,182
Total other income and (expense)	(3,189)	(1,112)	(169)	61	(3,894)
Loss before income taxes	(21,535)	(8,516)	(9,534)	(5,945)	(54,607)
Recovery of future income taxes	2,290	451	849	462	4,052
Net loss	**$ (19,245)**	**$ (8,065)**	**$ (8,685)**	**$ (5,483)**	**$ (50,555)**
Net loss per share of common stock, basic and diluted	**$ (0.49)**	**$ (0.22)**	**$ (0.36)**	**$ (0.42)**	
Weighted-average number of shares of common stock outstanding, basic and diluted	**39,276**	**35,989**	**24,233**	**12,920**	

(The accompanying notes are an integral part of these consolidated financial statements)

Adherex Technologies Inc.
(a development stage company)
Consolidated Statements of Cash Flows
U.S. dollars and shares in thousands, except per share information

	Year Ended December 31, 2005	Six Months Ended December 31, 2004	Years Ended June 30, 2004	Years Ended June 30, 2003	Cumulative From September 3, 1996 to December 31, 2005
Cash flows from (used in):					
Operating activities:					
Net loss	$ (19,245)	$ (8,065)	$ (8,685)	$ (5,483)	$ (50,555)
Adjustments for non-cash items:					
Amortization of capital assets	224	50	224	227	1,072
Non-cash Cadherin Biomedical Inc. litigation expense	-	1,187	-	-	1,187
Unrealized foreign exchange loss	-	-	-	-	9
Amortization of acquired intellectual property rights	2,723	1,234	2,323	1,265	7,545
Recovery of future income taxes	(2,290)	(451)	(849)	(462)	(4,052)
Loss on impairment of intellectual property	3,539	-	-	-	3,539
Amortization of leasehold inducements	108	-	(48)	(60)	(139)
Non-cash severance expense	-	-	-	168	168
Stock options issued to consultants	275	40	145	4	464
Stock options issued to employees	1,402	598	-	-	2,000
Accrued interest on convertible notes	-	-	331	11	341
Changes in operating assets and liabilities	1,003	730	601	(249)	1,993
Net cash used in operating activities	(12,261)	(4,677)	(5,958)	(4,579)	(36,428)
Investing activities:					
Purchase of capital assets	(102)	(294)	(154)	(62)	(1,346)
Disposal of capital assets	-	67	-	37	115
Release of restricted cash	-	-	192	-	190
Restricted cash	22	(38)	-	-	(207)
Purchase of short-term investments	(3,435)	(6,467)	(7,056)	-	(22,148)
Redemption of short-term investments	2,260	13,965	-	5,391	21,616
Investment in Cadherin Biomedical Inc.	-	-	-	(166)	(166)
Acquired intellectual property rights	-	-	-	(640)	(640)
Net cash provided (used) in investing activities	(1,255)	7,233	(7,018)	4,560	(2,586)
Financing activities:					
Conversion of long-term debt to equity	-	-	-	-	68
Long-term debt repayments	-	-	-	-	(65)
Capital lease repayments	-	-	-	-	(8)
Issuance of common stock	8,134	-	23,458	-	46,676
Registration expense	-	(465)	-	-	(465)
Financing expenses	(141)	-	(346)	-	(487)
Proceeds from convertible note	-	-	1,292	1,726	3,017
Other liability repayments	(59)	36	(51)	-	(74)
Proceeds from exercise of stock options	25	-	22	4	51
Net cash provided (used) in financing activities	7,959	(429)	24,375	1,730	48,713
Effect of exchange rate changes on cash and cash equivalents	-	1,747	62	220	2,217
Net change in cash and cash equivalents	(5,557)	3,874	11,461	1,931	11,916
Cash and cash equivalents - Beginning of period	17,473	13,599	2,138	207	-
Cash and cash equivalents - End of period	$ 11,916	$ 17,473	$ 13,599	$ 2,138	$ 11,916
Supplemental non-cash information:					
Acquisition of Oxiquant intellectual property	$ -	$ -	$ -	$ 12,828	
Leasehold improvements financed by leasehold inducements	-	76	-	-	
Leasehold improvements	544	-	-	-	
Share distribution to shareholders	-	-	-	166	
Convertible notes settled in private placement	-	-	1,822	-	
Acquisition of Cadherin Biomedical Inc.	-	1,187	-	-	

(The accompanying notes are an integral part of these consolidated financial statements)

Adherex Technologies Inc.
(a development stage company)
Consolidated Statements of Stockholders Equity
U.S. dollars and shares in thousands, except per share information

	Common Stock		Non-redeemable Preferred Stock of Subsidiary	Contributed Surplus	Cumulative Translation Adjustment	Deficit Accumulated During Development Stage	Total Shareholders' Equity
	Number	Amount					
Balance at June 30, 1996	-	$ -	$ -	$ -	$ -	$ -	$ -
Issuance of common stock	1,600	-	-	-	-	-	-
Net loss	-	-	-	-	-	(37)	(37)
Balance at June 30, 1997	1,600	-	-	-	-	(37)	(37)
Net loss	-	-	-	-	-	(398)	(398)
Balance at June 30, 1998	1,600	-	-	-	-	(435)	(435)
Exchange of Adherex Inc. shares for Adherex Technologies Inc. shares	(1,600)	-	-	-	-	-	-
Issuance of common stock	4,311	1,615	-	-	-	-	1,615
Cumulative translation adjustment	-	-	-	-	20	-	20
Net loss	-	-	-	-	-	(958)	(958)
Balance at June 30, 1999	4,311	1,615	-	-	20	(1,393)	242
Issuance of common stock	283	793	-	-	-	-	793
Issuance of equity rights	-	-	-	171	-	-	171
Issuance of special warrants	-	-	-	255	-	-	255
Settlement of advances							
Issuance of common stock	280	175	-	-	-	-	175
Cancellation of common stock	(120)	-	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	16	-	16
Net loss	-	-	-	-	-	(1,605)	(1,605)
Balance at June 30, 2000	4,754	2,583	-	426	36	(2,998)	47
Issuance of common stock:							
Initial public offering	1,333	5,689	-	-	-	-	5,689
Other	88	341	-	-	-	-	341
Issuance of special warrants	-	-	-	1,722	-	-	1,722
Conversion of special warrants	547	1,977	-	(1,977)	-	-	-
Issuance of Series A special warrants	-	-	-	4,335	-	-	4,335
Conversion of Series A special warrants	1,248	4,335	-	(4,335)	-	-	-
Conversion of equity rights	62	171	-	(171)	-	-	-
Cumulative translation adjustment	-	-	-	-	141	-	141
Net loss	-	-	-	-	-	(2,483)	(2,483)
Balance at June 30, 2001	8,032	15,096	-	-	177	(5,481)	9,792
Cumulative translation adjustment	-	-	-	-	(124)	-	(124)
Net loss	-	-	-	-		(3,596)	(3,596)
Balance at June 30, 2002	8,032	15,096	-	-	53	(9,077)	6,072

(continued on next page)

(The accompanying notes are an integral part of these consolidated financial statements)

Adherex Technologies Inc.
(a development stage company)
Consolidated Statements of Stockholders Equity
U.S. dollars and shares in thousands, except per share information

	Common Stock		Non-redeemable Preferred Stock of Subsidiary	Contributed Surplus	Cumulative Translation Adjustment	Deficit Accumulated During Development Stage	Total Shareholders' Equity
	Number	Amount					
Balance at June 30, 2002	8,032	$ 15,096	$ -	$ -	$ 53	$ (9,077)	$ 6,072
Stated capital reduction	-	(9,489)	-	9,489	-	-	-
Common stock issued for Oxiquant acquisition	8,032	11,077	-	543	-	-	11,620
Exercise of stock options	5	4	-	-	-	-	4
Distribution to shareholders	-	-	-	-	-	(158)	(158)
Stock options issued to non-employees	-	-	-	4	-	-	4
Equity component of June convertible notes	-	-	-	1,058	-	-	1,058
Financing warrants	-	-	-	53	-	-	53
Cumulative translation adjustment	-	-	-	-	2,047	-	2,047
Net loss	-	-	-	-	-	(5,483)	(5,483)
Balance at June 30, 2003	16,069	16,688	-	11,147	2,100	(14,718)	15,217
Stock options issued to consultants	-	-	-	148	-	-	148
Repricing of warrants related to financing	-	-	-	18	-	-	18
Equity component of December convertible notes	-	-	-	1,124	-	-	1,124
Financing warrants	-	-	-	54	-	-	54
Conversion of June convertible notes	1,728	1,216	-	(93)	-	-	1,123
Conversion of December convertible notes	1,085	569	-	(398)	-	-	171
Non-redeemable preferred stock	-	-	1,045	-	-	-	1,045
December private placement	11,522	8,053	-	5,777	-	-	13,830
May private placement	4,669	6,356	-	2,118	-	-	8,474
Exercise of stock options	18	23	-	-	-	-	23
Amalgamation of 2037357 Ontario Inc.	800	660	(1,045)	363	-	-	(22)
Cumulative translation adjustment	-	-	-	-	304	-	304
Net loss	-	-	-	-	-	(8,685)	(8,685)
Balance at June 30, 2004	35,891	33,565	-	20,258	2,404	(23,403)	32,824
Stock options issued to consultants	-	-	-	39	-	-	39
Stock options issued to employees	-	-	-	604	-	-	604
Retroactive adjustment for stock-based compensation	-	-	-	1,686	-	(1,686)	-
Cost related to SEC registration	-	(493)	-	-	-	-	(493)
Acquisition of Cadherin Biomedical Inc.	644	1,252	-	-	-	-	1,252
Cumulative translation adjustment	-	-	-	-	3,446	-	3,446
Net loss – six months	-	-	-	-	-	(8,065)	(8,065)
Balance at December 31, 2004	36,535	34,324	-	22,587	5,850	(33,154)	29,607
Cost related to financing	-	(141)	-	-	-	-	(141)
Exercise of stock options	15	25	-	-	-	-	25
Stock options issued to consultants	-	-	-	275	-	-	275
Stock options issued to employees	-	-	-	1,402	-	-	1,402
July private placement	6,079	7,060	-	1,074	-	-	8,134
Net loss	-	-	-	-	-	(19,245)	(19,245)
Balance at December 31, 2005	42,629	$ 41,268	$ -	$ 25,338	$ 5,850	$ (52,399)	$ 20,057

(The accompanying notes are an integral part of these consolidated financial statements)

1. Going Concern

These consolidated financial statements have been prepared using generally accepted accounting principles that are applicable to a going concern, which contemplates that Adherex will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The use of these principles may not be appropriate because at December 31, 2005 there was significant doubt that the Company will be able to continue as a going concern. The Company's ability to continue as a going concern is dependent upon the raising of additional financial resources.

The Company's management is considering all financing alternatives and is immediately seeking to raise additional funds for operations from current stockholders and other potential investors most likely in a private placement of common stock. This disclosure is not an offer to sell, nor a solicitation of an offer to buy the Company's securities. While the Company is striving to achieve the above plans, there is no assurance that such funding will be available or obtained on favorable terms.

The financial statements do not reflect adjustments in the carrying values of the assets and liabilities, the reported revenues and expenses, and the balance sheet classification used, that would be necessary if the going concern were not appropriate, and such adjustments could be material.

The Company's management believes sufficient financial resources exist to fund operations into late 2006.

2. Nature of Operations

Adherex Technologies Inc. ("Adherex"), together with its wholly owned subsidiaries Oxiquant, Inc. ("Oxiquant") and Adherex, Inc., both Delaware corporations and Cadherin Biomedical Inc. ("CBI"), collectively referred to herein as the "Company," is a development stage biopharmaceutical company with a portfolio of product candidates under development for use in the treatment of cancer.

On December 17, 2004, the Company's Board of Directors approved a change in the Company's fiscal year end from a twelve-month period ending June 30 to a twelve-month period ending December 31.

3. Significant Accounting Policies

Basis of presentation

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and include the accounts of Adherex and of all its subsidiaries. Investments over which the Company has control are fully consolidated. All material inter-company balances and transactions have been eliminated upon consolidation.

Share consolidation

On July 20, 2005, the Company announced that the Board of Directors had approved a share consolidation of the Company's common stock at a ratio of one-for-five. The share consolidation had previously been approved by the Company's shareholders at the Annual and Special Meeting held on April 29, 2005. The number of shares of Adherex common stock, stock options and warrants issued and outstanding and the basic and diluted weighted-

U.S. dollars and shares in thousands, except per share information

average shares outstanding as well as per share data and per stock option data have been adjusted for all periods presented to reflect the one-for-five share consolidation.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that impact the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Change in functional and reporting currency

Effective January 1, 2005, the Company determined that its functional currency had changed from the Canadian dollar to the United States ("U.S.") dollar because the majority of its operations are denominated in U.S. dollars as the result of increasing activities undertaken in the U.S. Concurrent with this change in functional currency, the Company adopted the U.S. dollar as its reporting currency.

The change was effected for prior periods as follows: assets and liabilities were translated into U.S. dollars at the prevailing exchange rates at each balance sheet date; revenues and expenses were translated at the average exchange rates prevailing during each reporting period and equity transactions were translated at the prevailing historical exchange rates at each transaction date. Adjustments resulting from the translations are included in the cumulative translation adjustments in shareholders' equity and total $5,850 at December 31, 2005 and 2004 and $2,404 at June 30, 2004.

Cash and cash equivalents

The Company considers all highly liquid investments with maturity of three months or less at the date of purchase to be cash or cash equivalents. The carrying value of cash and cash equivalents approximates their fair value due to the short-term nature of these items.

Cash pledged as collateral

The Company has pledged cash as collateral on corporate credit accounts in the form of interest-bearing term deposits.

Short-term investments

Short-term investments consist primarily of corporate bonds and bankers notes. The Company invests in high credit quality investments in accordance with its investment policy designed to protect the principal investment. Investments with original maturities at date of purchase beyond three months, and which mature at or less than twelve months from the balance sheet date, are classified as current. Investments are carried at book value plus accrued interest with unrealized losses recognized as investment income.

Capital assets

Capital assets are initially recorded at cost and are then amortized using the declining balance method at the following annual rates:

Furniture, fixtures and office equipment	20%
Computer equipment	30%
Computer software	100%
Laboratory equipment	20%

Leasehold improvements are amortized on a straight-line basis over the lease term.

Deferred leasehold inducements

Leasehold inducements consist of periods of reduced rent and other capital inducements provided by the lessor. The leasehold inducements relating to the reduced rent periods are deferred and allocated over the term of the lease. The Company received lease inducements in the form of leasehold improvements and rent-free periods.

Acquired intellectual property rights

Acquired intellectual property rights are recorded at cost and are being amortized over their estimated useful lives on a straight-line basis over ten years.

Impairment of long-lived assets

The Company tests the recoverability of long-lived assets whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company records an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the assets exceeds the discounted cash flows from the asset.

Convertible notes

The Company splits convertible notes into their respective liability and equity components based on the relative fair value of each component.

Common stock and warrants

Common stock is recorded as the net proceeds received on issuance after deducting all share issue costs and the value of investor warrants. Warrants are recorded at fair value and are deducted from the proceeds of common stock and recorded on the consolidated statements of shareholders' equity as contributed surplus.

Revenue recognition

The Company recognizes revenue from multiple element arrangements under a development and license agreement, which include license payments, milestones and royalties. Revenue arrangements with multiple deliverables are accounted for under the provisions of the Emerging Issues Committee Abstract# -142, Revenue Arrangements With Multiple Deliverables, and are divided into separate units of accounting if certain criteria are met. The consideration the Company receives is allocated among the separate units of accounting based on their respective fair values, and the applicable revenue recognition criteria are considered separately for each of the separate units.

Non-refundable up-front payments received in conjunction with a development and license agreement, including license fees and milestones are deferred and recognized on a straight-line basis over the relevant periods.

The Company records royalty revenue in accordance with the contract terms once it can be reliably measured and the collection is reasonably assured.

Research and development costs and investment tax credits

Research costs, including employee compensation, laboratory fees, lab supplies, and research and testing performed under contract by third parties, are expensed as incurred. Development costs, including drug substance costs, clinical study expenses and regulatory expenses are also generally expensed as incurred unless such costs meet the criteria under generally accepted accounting principles in Canada for deferral and amortization. To qualify for deferral, the costs must relate to a technically feasible, identifiable product that the Company intends to produce and market, there must be a clearly defined market for the product, and the Company must have the resources, or access to resources, necessary to complete the development. To date, no development costs have been deferred.

Investment tax credits, which are earned as a result of qualifying research and development expenditures, are recognized when the expenditures are made and their realization is reasonably assured. They are applied to reduce related capital costs and research and development expenses in the year recognized.

Income taxes

The Company accounts for income taxes under the asset and liability method that requires the recognition of future income tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. The Company provides a valuation allowance on net future tax assets when it is more likely than not that such assets will not be realized.

Foreign currency translation

All of the Company’s foreign operations are integrated. Financial statements of integrated foreign operations are translated as follows:

Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates prevailing at the balance sheet date. Non-monetary items and any related amortization of such items are translated at the rates of exchange in effect when the assets were acquired or the obligations incurred. Expenses denominated in foreign currencies are translated at the relevant exchange rates prevailing during the year. Exchange gains and losses are included in net loss for the year.

Stock-Based compensation plan

Effective January 1, 2002, the Company adopted the recommendations of the CICA set out in Section 3870 “Stock-Based Compensation and Other Stock-Based Payments” (“CICA 3870”). Until January 1, 2004, this standard only required the expensing of the fair value of non-employee options, with note disclosure of the fair value and effect of employee and director options on the financial statements. For fiscal years beginning after January 1, 2004, the fair value of all options granted must be expensed in the statement of operations. Upon adopting this new standard, the Company elected to retroactively adjust retained earnings without restatement. On July 1, 2004, the Company increased the deficit by $1,686 and increased contributed surplus by the same amount.

U.S. dollars and shares in thousands, except per share information

Loss per share

Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed the same method, except the weighted average number shares of common stock and includes, where applicable convertible debentures, stock options and warrants, if dilutive.

Comparative figures

Certain comparative figures have been reclassified to conform to the current period presentation, including patent fees which have been reclassified from research and development to general and administrative expenses.

4. Cash, Cash Equivalents and Short-Term Investments

The following table summarizes the Company's cash and cash equivalents, cash pledged as collateral and short-term investments at December 31, 2005, December 31, 2004 and June 30, 2004:

	December 31, 2005	December 31, 2004	June 30, 2004
Cash and cash equivalents	$ 11,916	$ 17,473	$ 13,599
Cash pledged as collateral	53	75	31
Short-term investments	1,175	-	7,071
	$ 13,144	$ 17,548	$ 20,701

Cash and cash equivalents have a maturity of less than 90 days. Short-term investments have maturities of greater than 90 days and less than twelve months. Short-term investments at December 31, 2005 consisted of corporate commercial paper with maturities of 154 to 176 days with their market value approximating their fair value. At December 31, 2004, the Company had no short-term investments. Short-term investments at June 30, 2004 consisted of corporate bonds with maturities at acquisition from 110 to 159 days. As these investments had been purchased just prior to year-end at June 30, 2004, their market value approximated their fair value.

Cash pledged as collateral in all years presented relates to amounts to secure certain corporate credit accounts.

5. Acquired Intellectual Property

On November 20, 2002, Adherex acquired certain intellectual property for chemotherapeutics with a focus in chemoprotection and chemoenhancement. The intellectual property resided in Oxiquant, a holding company with no active business. The Company consummated the acquisition by reverse triangular merger, pursuant to which the Company acquired all of the issued and outstanding securities of Oxiquant through an amalgamation of Oxiquant with a wholly owned subsidiary of the Company formed for this purpose. The assets consisted of an exclusive worldwide license to mesna from Rutgers, The State University of New Jersey ("Rutgers"), and certain intellectual property from Oregon Health & Science University ("OHSU") relating to the use of sodium thiosulfate ("STS") and N-acetylcysteine ("NAC").

The intellectual property at the date of acquisition in Canadian dollars was valued at CAD$31,162 reflecting net liabilities assumed of CAD$401 and a provision for future income tax liability of CAD$11,390, resulting in

U.S. dollars and shares in thousands, except per share information

total consideration of CAD$19,371. The consideration took the form of 8,032 shares of common stock of Adherex with a fair value at the date of acquisition, of CAD$17,544, as well as 461 warrants valued at CAD$640, and 170 introduction warrants valued at CAD$220. In addition, there were transaction costs in Canadian dollars of CAD$967. The acquired intellectual property was deemed to have a ten year useful life, amortized on a straight-line basis.

At December 31, 2005, the Company determined the carrying value of the intellectual property relating to mesna, which had a book value of $3,539 and a recovery of future income tax benefit of $1,294, was fully impaired and written off based on the Company's lack of any further developmental plans. This decision was based on the addition of eniluracil to the Company's R&D portfolio, and the financial resources additionally devoted to the development of ADH-1.

6. Capital Assets

	Year Ended December 31, 2005		Six Months Ended December 31, 2004		Year Ended June 30, 2004	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture, fixtures and office equipment	$ 92	$ 32	$ 185	$ 23	$ 81	$ 8
Computer equipment	125	48	77	14	46	5
Computer software	125	125	124	77	74	62
Laboratory equipment	591	358	553	301	604	311
Leasehold improvements	4	-	128	-	-	-
	937	$ 563	1,067	$ 415	805	$ 386
Accumulated amortization	(563)		(415)		(386)	
Net book value	$ 374		$ 652		$ 419	

Amortization of capital assets was $224, $50 and $224 for the year ended December 31, 2005, the six months ended December 31, 2004 and for the year ended June 30, 2004, respectively.

7. Leasehold Inducements

On August 31, 2005, the Company entered into agreements to lease a new office and laboratory facility ("Maplewood Facility") and sublease the Company's existing facility ("Englert Facility") on similar terms as in the original lease. As an incentive to enter into the new lease, the Company received free rent and capital inducements. The Company is paying only half rent for the Maplewood Facility over the first 24 months of the 84-month lease term and received additional inducements in the form of furniture, equipment and leasehold improvements with a fair market value of approximately $544. As part of the sublease of the Englert Facility, the Company provided furniture, equipment and leasehold improvements with a net book value of $156 and an approximate fair market value of $75. In addition, the Company has written-off the $68 liability related to leasehold improvements at the Englert Facility and included this amount in the deferred rent inducement as the Company's sublessee is now contractually obligated to make those payments; however, should the sublessee default on such payments Adherex would then become liable for the remaining amount.

The Company will record rent expense by charging the total rental payments plus the value of the capital inducements received against earnings on a straight-line basis over the 84-month term of the lease which expires on August 31, 2012.

U.S. dollars and shares in thousands, except per share information

8. Cadherin Biomedical Inc.

On September 27, 2002, CBI was incorporated as a wholly owned subsidiary of Adherex. The Company granted CBI an exclusive worldwide, royalty-free license to develop, market and distribute pharmaceuticals and therapeutics for non-cancer applications based on or derived from the Company's cadherin platform owned or licensed under a collaboration agreement with McGill and paid to CBI $158 in cash, in exchange for 8,032 Class A Preferred Shares of CBI, which constituted all of the issued and outstanding shares of CBI. The Company distributed the Class A Preferred Shares of CBI pro rata to its shareholders of record at the time, after which such shareholders held all of the issued and outstanding shares of CBI. This divestiture of the Company's non-cancer assets was a condition precedent to the acquisition in November 2002 of Oxiquant, a U.S.-based development stage pharmaceutical company with a focus in chemoprotection and chemoenhancement.

In February 2004, the Company filed a claim in the Ontario Superior Court of Justice against CBI in the amount of $75 on account of unpaid goods and services rendered. In July 2004, CBI filed a statement of defense and counterclaim in response to such claim. CBI's counterclaim sought $3,782 in damages relating to the license agreement between the companies. On December 3, 2004, the Company acquired all of the issued and outstanding shares of CBI. Pursuant to the terms of the amalgamation, the Company issued to CBI shareholders approximately 0.6 million shares of Adherex common stock valued at $1,252 based on a 20 day weighted average trading price in exchange for all of the issued and outstanding shares of CBI. Immediately prior to the acquisition of CBI, directors and officers of the Company owned an aggregate of 99 shares of CBI stock and were therefore entitled to receive approximately 7 shares of common stock of Adherex pursuant to the terms of the amalgamation. CBI had no material operations due to minimal financial resources. The total cost of the acquisition has been recorded as follows:

Adherex common stock	$ (1,252)
Transaction costs	(119)
Net financial assets acquired	23
Settlement of CBI litigation	$ (1,348)

Adherex acquired CBI to settle the litigation between the two companies and to reacquire the non-cancer rights to the cadherin-based intellectual property. The issuance of the 640 shares of common stock and the associated transaction expenses have been recorded as settlement of CBI litigation and therefore expensed in Statement of Operations for the six months ended December 31, 2004.

The Company believes the reacquisition of the non-cancer rights may be beneficial when seeking any future collaborations with other pharmaceutical and biotech companies.

9. Convertible Notes

On June 23, 2003, the Company issued senior secured convertible notes with a face value totaling $2,219. These notes were convertible into common stock and warrants to acquire common stock of the Company upon completion of an equity fund raising round. Investors also received warrants to purchase an aggregate of 345 shares of common stock of the Company with an exercise price of CAD$2.75 per share. The notes bore interest at an annual rate of eight percent compounded semi-annually, and matured one year from issue but were

renewable for one additional year at the option of the Company. In connection with this issuance, the Company issued broker warrants to purchase 101 shares of common stock exercisable at a price of CAD$2.35 per share.

On December 3, 2003, the Company issued additional senior secured convertible notes with a face value totaling $1,458. These notes were convertible into common stock and warrants to acquire common stock of the Company upon completion of an equity fund raising round. Also, investors received warrants for 271 shares of common stock exercisable at a price of CAD$2.15 per share. The notes bore interest at an annual rate of eight percent compounded semi-annually, and matured one year from issue but were renewable for one additional year at the option of the Company. The Company also issued broker warrants to purchase 94 shares of common stock exercisable at a price of CAD$2.15 per share.

Under the terms of the June 2003 financing, the Company could not issue any further debt without the consent of the June convertible note holders. As an inducement to obtain consent to the December 3, 2003 financing, the exercise price of 287 warrants granted in the June financing was changed from CAD$2.75 to CAD$2.15 per share on December 3, 2003, making the terms of both debt financings substantially the same. Warrants held by Company insiders were not repriced. The reduction of exercise price resulted in an increase in the fair value of the warrants on the date of the change of $18. The increase was recorded as interest expense.

Upon issuance, values were ascribed to the investor warrants and to the conversion feature with the remainder being ascribed to the debt portion of the note. These values were being amortized over the life of the notes. As a result, the notes accrued interest at an implied rate in excess of 50 percent, although cash interest was only eight percent.

On December 19, 2003, the Company completed an equity round as described in footnote 10 – Shareholders' Equity, "Equity financings." This caused the June and the December notes to convert into 2,813 shares of common stock and 1,407 warrants to purchase common stock. The warrants are exercisable at CAD$2.15 per share and expire December 19, 2008.

The carrying values of the debt and the conversion option components associated with the notes, net of expenses of the offerings, were transferred to equity and split between common stock and contributed surplus ($1,785 to common stock, $1,202 to contributed surplus).

10. Shareholders' Equity

Share Consolidation

On July 20, 2005, the Company announced that the Board of Directors had approved a share consolidation of the Company's common stock at a ratio of one-for-five. The share consolidation had previously been approved by the Company's shareholders at the Annual and Special Meeting held on April 29, 2005. The share consolidation became effective at the close of business on July 29, 2005 and reduced the number of shares of common stock then outstanding from approximately 213 million to approximately 43 million**.** The share consolidation equally affected all of the Company's common shares, stock options and warrants outstanding at the effective date. The number of shares of Adherex common stock, stock options and warrants issued and outstanding and the basic and diluted weighted-average shares outstanding as well as per share data and per stock option data have been retroactively adjusted for all periods presented to reflect the one-for-five share consolidation.

Authorized capital stock

The Company's authorized capital stock consists of an unlimited number of shares of no par common stock.

Special warrants

From May 2000 through November 2000, the Company issued special warrants. Each special warrant was sold for CAD$25.00 and entitled the holder thereof to acquire, for no additional consideration, four shares of common stock of the Company. The special warrants also included a price protection adjustment determined by dividing CAD$32.50 by the initial public offering ("IPO") price of CAD$7.50.

During the year ended June 30, 2000, 16 of 126 special warrants were issued, with the balance of 110 issued in the period ended June 30, 2001. Upon completion of the IPO, on June 5, 2001, these special warrants were converted to 547 shares of common stock, which included 42 shares of common stock issued under the price protection adjustment.

Series A special warrants

During October 2000, the Company issued Series A special warrants. Each Series A special warrant was sold at CAD$6.25 and entitled the holder to acquire, for no additional consideration, one share of common stock of the Company. The Series A special warrants also included a price protection adjustment determined by dividing CAD$8.125 by the IPO price.

Upon completion of the IPO on June 5, 2001, these Series A special warrants were converted to 1,248 shares of common stock, which included 96 shares of common stock issued under the price protection adjustment.

In addition, each Series A special warrant included a share purchase warrant entitling the holder to purchase an additional share of common stock at the IPO price, which was also subject to the price protection adjustment, so that 1,248 additional common stock could have been sold at the IPO price. These share purchase warrants expired unexercised on September 3, 2001.

Equity rights

On September 28, 1999, University Medical Discoveries Inc. ("UMDI") invested $171 for equity of the Company. The form of this equity was to be the same as the first class of securities to raise greater than $683 subsequent to the date of the investment. The date of conversion was dependent on certain milestones being met under a specific research project. On August 24, 2000, the Company and UMDI agreed to convert UMDI's $171 investment into 62 shares of common stock of the Company.

Triathlon settlement

During fiscal 2000, other advances totaling $175 were settled by the issuance to Triathlon Limited of 280 shares of common stock of the Company. The number of shares issued was determined with reference to the fair value at the time the advances were made.

Shire BioChem Inc. agreement

On August 17, 2000, the Company entered into a subscription agreement and a license agreement with Shire BioChem Inc. (“BioChem”). Under the subscription agreement, BioChem purchased 80 shares of common stock of the Company for $341. Pursuant to a price protection clause in the agreement, an additional 7 shares of common stock were issued on completion of the Company’s IPO on June 5, 2001.

Initial public offering

On June 5, 2001, the Company completed an IPO issuing 1,333 shares of common stock at a price of CAD$7.50 per share. Net proceeds of this offering credited to capital stock amounted to $5,689, after deducting the underwriting fee of $501 and expenses of $354. As additional compensation in connection with the offering, the Company granted the underwriters non-assignable support options representing ten percent of the offered shares. Each support option entitled the holder to purchase one share of common stock on or before June 5, 2003 at CAD$7.50. The Company also granted the underwriters an option (“Over-allotment Option”) to purchase up to 200 shares of common stock at the offering price for a period ending 30 days from the close of the offering. On July 5, 2001, the Over-allotment Option expired unexercised.

Stated capital reduction

As a prerequisite of the Oxiquant transaction, Adherex licensed all of its cadherin-related intellectual property for non-cancer applications and transferred $158 cash to CBI, a wholly-owned subsidiary of Adherex at the time, in return for Class A Preferred Shares of CBI. These CBI Class A Preferred Shares were then distributed to all of the Adherex shareholders of record by way of special dividend, effecting a “spin out” of CBI and the non-cancer assets from Adherex.

Warrants issued on acquisition of intellectual property

In connection with the acquisition of the intellectual property of Oxiquant in November 2002, the Company issued 461 warrants with an exercise price of CAD$3.59 that expire on November 20, 2007 and 170 introduction warrants with an exercise price of CAD$2.05 that expire on May 20, 2007.

Convertible note warrants

In connection with the June 2003 issuance of senior secured convertible notes, the Company issued 345 investor warrants with an exercise price of CAD$2.75 per share that expire on June 23, 2007 and 101 broker warrants with an exercise price of CAD$2.35 per share that expired on June 23, 2005 unexercised. As an inducement to consent to the issuance of the December 2003 convertible notes, the exercise price of 287 of the investor warrants was changed from CAD$2.75 per share to CAD$2.05 per share on December 3, 2003.

In connection with the December 2003 issuance of additional senior secured convertible notes, the Company issued 271 warrants with an exercise price of CAD$2.15 per share that expire on December 3, 2007 and 94 broker warrants with an exercise price of CAD$2.15 per share that expired on December 3, 2005 unexercised.

Equity financings

On December 19, 2003, the Company completed a private placement of equity securities totaling $16,095, comprised of (i) $15,050 for 11,522 units, at a price of CAD$1.75 per unit, comprised of an aggregate of 11,522 shares of common stock and warrants to acquire 5,761 shares of common stock of Adherex with an exercise price of CAD$2.15 per share. and (ii) $1,045 for 800 Series 1 Preferred Shares and warrants to purchase 400 Series 1 Preferred Shares of 2037357 Ontario Inc. The $5,777 estimated fair value of the warrants has been allocated to contributed surplus and the balance of $8,031 has been credited to common stock. The non-redeemable Series 1 Preferred Shares of 2037357 Ontario Inc. (“Preferred Shares”) were exchangeable into 800 shares of common stock of Adherex. Upon such an exchange, all of the then outstanding warrants to purchase the Preferred Shares would be exchanged for an equal number of warrants to purchase Adherex common stock, which would have an exercise price of CAD$2.15 per share. The $1,045 was to be spent on specific research and development projects in Ontario, Canada as designated by Adherex. Adherex could compel the exchange of the Preferred Shares into common stock and warrants for common stock of Adherex at any time after January 3, 2005. The Company also issued broker warrants to purchase 1,226 shares of common stock exercisable at a price of CAD$2.15 per share.

2037357 Ontario Inc. has been accounted for in accordance with the substance of the transaction. The $1,045 has been recorded as non-redeemable Preferred Shares and the amounts expended were recorded as expenses in the relevant periods. On June 14, 2004, the Preferred Shares and warrants to purchase Preferred Shares were exchanged for 800 shares of Adherex common stock and warrants to purchase 400 shares of Adherex common stock. In June 2004, 2037357 Ontario Inc. became a wholly owned subsidiary of the Company and was subsequently amalgamated with Adherex Technologies Inc. The investment has been split between the estimated fair value of the warrants of $371, which has been included in contributed surplus, and the remainder of $674, which has been recorded in common stock.

On May 20, 2004, the Company completed equity financings with total gross proceeds of $9,029 less $555 in estimated issuance costs. The Company issued 4,669 units at a purchase price of CAD$2.65 per unit with each unit consisting of one share of common stock and one-half of a common stock purchase warrant. Each whole warrant entitles the holder to acquire one additional share of common stock at an exercise price of CAD$3.50. The $2,118 value of the warrants has been allocated to contributed surplus and the balance of $6,356 has been credited to common stock.

On July 20, 2005, the Company completed a private placement of equity securities for gross proceeds of $8,510 for 6,079 units at a price of $1.40 per unit, providing net proceeds of $8,134 after deducting broker fees and other expenses of $376. Each unit consisted of one common share and 0.30 of a common share purchase warrant. The private placement comprised an aggregate of 6,079 shares of common stock, along with 1,824 investor warrants and 57 broker warrants to acquire additional shares of Adherex common stock. Each whole investor warrant entitles the holder to acquire one additional share of common stock of Adherex at an exercise price of $1.75 per share for a period of three years and each whole broker warrant entitles the holder to acquire one share of Adherex common stock at an exercise price of $1.75. The investor warrants, with a value of $1,074 based on the Black-Scholes option pricing model, have been allocated to contributed surplus and the remaining balance of $7,060 has been credited to common stock.

Warrants to Purchase Common Stock

As of December 31, 2005, the Company has the following warrants to purchase common stock outstanding priced in Canadian dollars with a weighted-average exercise price of CAD$2.51 and a weighted-average remaining contractual life of 2.50 years.

U.S. dollars and shares in thousands, except per share information

Warrant Description	Number Outstanding at December 31, 2005	Exercise Price In Canadian Dollars	Expiration Date	Remaining Contractual Life (years)
Investor warrants	2,335	CAD$ 3.50	May 20, 2007	1.38
Agent warrants	170	CAD$ 2.05	May 20, 2007	1.38
Convertible notes warrants	344	CAD$ 2.75	June 23, 2007	1.48
Acquisition warrants	461	CAD$ 3.59	November 20, 2007	1.89
Convertible notes warrants	271	CAD$ 2.15	December 3, 2007	1.92
Investor warrants	7,567	CAD$ 2.15	December 19, 2008	2.97
	11,148			

As of December 31, 2005, the Company has the following warrants to purchase common stock outstanding priced in U.S. dollars with a weighted-average exercise price of $1.75 and a weighted-average remaining contractual life of 2.52 years.

Warrant Description	Number Outstanding at December 31, 2005	Exercise Price In U.S. Dollars	Expiration Date	Remaining Contractual Life (years)
Agent warrants	57	$ 1.75	July 20, 2007	1.55
Investor warrants	1,824	$ 1.75	July 20, 2008	2.55
	1,881			

U.S. dollars and shares in thousands, except per share information

Stock options

The Compensation Committee of the Board of Directors administers the Company's stock option plan. The Compensation Committee designates eligible participants to be included under the plan and approves the number of options to be granted from time to time under the plan. A maximum of 5,600 options, not including the 700 options issued to the Chief Executive Officer and specifically approved by the shareholders, are authorized for issuance under the plan. The option exercise price for all options issued under the plan is based on the fair value of the underlying shares on the date of grant. All options vest within three years or less and are exercisable for a period of seven years from the date of grant. The stock option plan, as amended allows the issuance of Canadian and U.S. dollar grants. A summary of the stock option transactions, for both the U.S. and Canadian dollar grants, through the year ended December 31, 2005 is summarized below:

The following options granted under the stock option plan are exercisable in Canadian dollars:

		Exercise Price in Canadian Dollars	
	Number of Options	Range	Weighted-average
Outstanding at June 30, 2002	741	1.6375-CAD$ 7.50	CAD$3.70
Cancelled	(114)	1.6375-6.25	4.65
Exercised	(3)	1.6375	1.65
Granted	1,021	1.65-1.75	1.65
Outstanding at June 30, 2003	1,645	1.6375-7.50	2.40
Cancelled	(27)	1.70-3.25	1.75
Exercised	(18)	1.6375-1.75	1.70
Granted	1,676	2.25-3.25	2.50
Outstanding at June 30, 2004	3,276	1.6375-7.50	2.45
Cancelled	(10)	3.25-6.25	5.65
Granted	497	1.95-2.20	2.00
Outstanding at December 31, 2004	3,763	1.6375-7.50	2.40
Cancelled	(84)	1.6375-6.25	2.93
Exercised	(15)	1.6375-1.70	1.66
Granted	-	-	-
Outstanding at December 31, 2005	3,664	1.6375-CAD$ 7.50	CAD$2.39

	Options Outstanding			Options Exercisable		
Range of Exercise Price in Canadian Dollars	Number Outstanding at December 31, 2005	Weighted-average Exercise Price in Canadian Dollars	Weighted-average Remaining Contractual Life (years)	Number Outstanding at December 31, 2005	Weighted-average Exercise Price in Canadian Dollars	Weighted-average Remaining Contractual Life (years)
CAD$1.51-2.25	2,707	CAD$ 1.9313	4.43	2,363	CAD$ 1.9173	4.28
2.26-3.00	579	2.7850	5.22	445	2.8098	5.19
3.01-3.75	226	3.4263	3.64	151	3.5143	2.87
6.01-6.75	8	6.2500	0.77	8	6.2500	0.77
6.76-7.50	144	7.5000	1.15	144	7.5000	1.15
CAD$1.51-7.50	3,664	CAD$ 2.3865	4.37	3,111	CAD$ 2.3915	4.19

U.S. dollars and shares in thousands, except per share information

The following options granted under the stock option plan are exercisable in U.S. dollars:

		Exercise Price in U.S Dollars	
	Number of Options	Range	Weighted-average
Outstanding at December 31, 2004	-	-	-
Granted	1,603	$ 0.88-1.35	$ 1.14
Exercised	-	-	-
Cancelled	(20)	1.20	1.20
Outstanding at December 31, 2005	1,583	$ 0.88-1.35	$ 1.14

	Options Outstanding			Options Exercisable		
Range of Exercise Price in U.S. Dollars	Number Outstanding at December 31, 2005	Weighted-average Exercise Price	Weighted-average Remaining Contractual Life (years)	Number Outstanding at December 31, 2005	Weighted-average Exercise Price	Weighted-average Remaining Contractual Life (years)
$0.76-$1.50	1,583	$ 1.1393	6.56	699	$ 1.2086	6.29

Stock-based compensation expense

The value of each option is estimated on the date of grant using the Black-Scholes option-pricing model and recorded as an expense ratably over the vesting period of the option. Calculations were based on the following assumptions:

	Year Ended December 31, 2005	Six Months Ended December 31, 2004	Years Ended June 30,	
			2004	2003
Expected dividend	0%	0%	0%	0%
Risk-free interest rate	3.82%	4.15%	4.46%	4.32%
Expected volatility	70%	68%	68%	70%
Expected life	7 years	7 years	7 years	7 years
Weighted average fair value of options issued	US$1.1254	CAD$1.9979	CAD$2.5003	CAD$1.5855

11. Research and Development

Investment tax credits earned as a result of qualifying research and development expenditures and government grants have been applied to reduce research and development expenses as follows:

	Year Ended December 31, 2005	Six Months Ended December 31, 2004	Year Ended June 30, 2004	Cumulative From September 3, 1996 to December 31, 2005
Research and development	$ 12,441	$ 3,609	$ 3,695	$ 30,211
Investment tax credits	-	(166)	(130)	(1,632)
National Research Council grants	-	-	(4)	(197)
	$ 12,441	$ 3,443	$ 3,561	$ 28,382

U.S. dollars and shares in thousands, except per share information

The Company's claim for any Scientific Research and Experimental Development ("SR&ED") deductions and related investment tax credits for income tax purposes are based upon management's interpretation of the applicable legislation in the Canadian Income Tax Act. These amounts are subject to review and acceptance by the Canada Revenue Agency prior to collection.

The Company does not have a claim for any SR&ED deductions or related investment tax credits for fiscal 2005.

12. Capital and Operating Lease Commitments

The Company has entered into operating lease agreements for the U.S. office and laboratory facilities. As of December 31, 2005, the minimum cash payments per the lease agreements are as follows:

Year Ending	Amount
December 31, 2006	$ 252
December 31, 2007	334
December 31, 2008	474
December 31, 2009	488
December 31, 2010	471
December 31, 2011	395
December 31, 2012	268
Total minimum rent payments	$ 2,682

The table above includes a lease agreement which has been subleased to a third party until March 31, 2008. Under the terms of the operating lease for the office facilities the Company financed $80 of leasehold improvements through the building's owner. The amount is being financed over the term of the lease which expires in September 2010 and bears an annual interest rate of six percent. This obligation was assumed by the sublessee when the Company subleased the facility to a third party, however should the sublessee default, the Company would become liable.

Rental payments on operating leases and interest on capital lease payments are summarized in the table below:

Period Ending	Amount	Interest
December 31, 2005	$ 184	$ 4
December 31, 2004	66	-
June 30, 2004	156	-
June 30, 2003	142	1
June 30, 2002	187	1

13. Commitments and Contingencies

McGill University ("McGill") Agreement

On February 26, 2001, the Company entered into a general collaboration agreement with McGill that grants the Company a 27-year exclusive, worldwide license to develop, use and market certain cell adhesion technology and compounds. The license agreement provides for the Company to pay future royalties of two percent of gross revenues from the use of the technology and compounds and will require the Company to make payments in order to maintain the license as follows:

- CAD$100 if the Company had not filed an investigational new drug ("IND") application, or similar application with Canadian, US, European or a recognized agency, relating to the licensed product prior to September 23, 2002. On August 1, 2002, McGill acknowledged that work completed on the clinical development of ADH-1 was sufficient to meet the requirements of the September 23, 2002 milestone and thus no payment was required.
- CAD$100 if the Company had not commenced Phase II clinical trials in a recognized jurisdiction on any licensed product prior to September 23, 2004. On September 20, 2004, McGill acknowledged that the Company had met obligations with respect to the September 23, 2004 milestone and thus no payment was required.
- CAD$200 if the Company has not commenced Phase III clinical trials in a recognized jurisdiction on any licensed product prior to September 23, 2006.

In addition, the Company is required to fund mutually agreed upon research at McGill over a period of ten years totaling CAD$3,300. Annual funding commenced in 2001 with a total payment of CAD$200 and increases annually by 10 percent through to the tenth year of the agreement when annual funding reaches CAD$500. The additional research commitment can be deferred in any year if it exceeds five percent of the Company's cash and cash equivalents. As of December 31, 2005, there have been no deferrals. The Company receives certain intellectual property rights resulting from this research.

Rutgers agreement

The Company has an exclusive license agreement with Rutgers for the exclusive worldwide license rights to "Novel Redox Clamping Agents and Uses Thereof." Rutgers will also receive certain milestone payments, a four percent running royalty on net sales of any licensed products semiannually and a 20 percent non-running royalty on any consideration received from sublicensing or transferring of the licensed technology. Milestone payment fees payable to Rutgers include: $25 upon completion of the first clinical trial performed in compliance with FDA or corresponding foreign health authority requirements, in a small number of patients to determine the metabolism and pharmacological actions of doses; $50 upon commencement of the first Phase III clinical trial or equivalent; $100 upon receipt of market approval in the first major market country; $200 upon receipt of market approval in the second major market country; and $300 on receipt of market approval in the third major market country. In addition, on each anniversary of the license agreement, a license maintenance fee starting at $5 and increasing by that same amount each subsequent anniversary is due to Rutgers. After completion of the fifth anniversary period, and on each subsequent anniversary, the annual license maintenance fee shall be $50, and can be offset against royalties (with some restrictions). The Company has made all maintenance payments required to date and no milestone payments have been required.

Oregon Health & Science University agreement

The Company has an exclusive license agreement with OHSU for exclusive worldwide license rights to intellectual property surrounding work done by Dr. Edward Neuwelt with respect to thiol-based compounds and their use in oncology. OHSU and will receive certain milestone payments, a 2.5 percent royalty on net sales for licensed products and a 15 percent royalty on any consideration received from sublicensing of the licensed technology. Milestone payment fees payable to OHSU include: $50 upon completion of Phase I clinical trials; $200 upon completion of Phase II clinical trials; $500 upon completion of Phase III clinical trials; and $250 upon first commercial sale for any licensed product. To date, no milestone payments have been required.

Employment matters

Under the terms of an agreement dated February 19, 2003, the prior Chief Executive Officer of the Company was terminated by mutual agreement. Pursuant to that agreement, the Company agreed to pay a total of $350. The initial payment of $229 was made during the quarter ended March 31, 2003 and was recorded as a General and Administration expense. Additionally, he will receive $50 per year for four years paid in semi-monthly installments. The present value of the remaining payments has been recorded as a General and Administration expense. The present value of the amounts due in the next twelve months is recorded in accrued liabilities, with the remaining amounts recorded as a long-term liability.

GlaxoSmithKline

On July 14, 2005, we entered into a development and license agreement with GSK. The agreement included the in-license by Adherex of GSK's oncology product, eniluracil, and an option for GSK to license ADH-1. As part of the transaction GSK invested $3,000. Under the terms of the agreement relating to eniluracil, Adherex received an exclusive license to develop eniluracil for all indications and GSK retained options to buy-back and assume development of the compound at various points in time. If GSK exercises an option to buy-back eniluracil, Adherex could receive upfront payments, development milestone payments and sales milestone payments of up to $120,000 in aggregate, plus up to double-digit royalties on annual net sales, dependent upon when in the compound's development the option is exercised. In addition, if GSK elects to buy-back eniluracil, GSK would be responsible for the further development and associated expenses. Under the terms of the development and license agreement with GSK, should GSK not exercise any of its options to buy back eniluracil, the Company would be free to develop eniluracil alone or with other partners. If the Company files a New Drug Application ("NDA") with the FDA, the Company may be required to pay development milestones of $5.0 million to GSK. Depending upon whether the NDA is approved by the FDA and whether eniluracil becomes a commercial success, the Company may be required to pay up to an additional $70.0 million in development and sales milestones for the initially approved indication, plus double digit royalties based on annual net sales. If the Company pursues other indications, the Company may be required to pay up to an additional $15 million to GSK per FDA-approved indication.

Adherex also granted GSK an option to receive a worldwide, exclusive license for ADH-1 for all indications. If the ADH-1 option is exercised, a series of upfront payments, development milestone payments and sales milestone payments to Adherex would be triggered of up to approximately $100 million in aggregate plus double-digit royalties on annual net sales. In addition, if GSK exercises the ADH-1 option, GSK would become responsible for all further development and associated expenses of the ADH-1 development program.

U.S. dollars and shares in thousands, except per share information

14. Income Taxes

The Company operates in several tax jurisdictions. Its income is subject to varying rates of tax and losses incurred in one jurisdiction cannot be used to offset income taxes payable in another. A reconciliation of the combined Canadian federal and provincial income tax rate with the Company's effective tax rate is as follows:

	Year Ended December 31, 2005	Six Months Ended December 31, 2004	Year Ended June 30, 2004
Domestic loss	$ (15,498)	$ (6,594)	$ (7,751)
Foreign loss	(6,037)	(1,922)	(1,783)
Loss before income taxes	(21,535)	(8,516)	(9,534)
Expected statutory rate (recovery)	36.12%	36.12%	35.87%
Expected provision for (recovery of) income tax	(7,778)	(3,076)	(3,420)
Permanent differences	513	252	73
Change in valuation allowance	5,129	2,564	3,399
Non-refundable investment tax credits	(35)	(41)	(105)
Share issue costs and effect of change of carryforwards	(51)	(100)	(512)
Effect of foreign exchange rate differences	(68)	21	16
Effect of tax rate changes	-	(71)	(300)
Recovery of income taxes	$ (2,290)	$ (451)	$ (849)

The Canadian statutory income tax rate of 36.12 percent is comprised of federal income tax at approximately 22.12 percent and provincial income tax at approximately 14.00 percent.

The primary temporary differences which gave rise to future income taxes, assets and liabilities at December 31, 2005, at December 31, 2004 and the year ended June 30, 2004 are as follows:

	Year Ended December 31, 2005	Six Months Ended December 31, 2004	Year Ended June 30, 2004
Future tax assets:			
SR&ED expenditures	$ 2,390	$ 2,065	$ 1,817
Income tax loss carryforwards	12,060	8,607	5,904
Non-refundable investment tax credits	998	839	744
Share issue costs	311	633	707
Reserves	518	-	-
Fixed and intangible assets	1,106	854	715
	17,383	12,998	9,887
Less: valuation allowance	(17,383)	(12,998)	(9,850)
Net future tax assets	-	-	37
Future tax liabilities:			
Asset basis differences	(5,174)	(7,463)	(7,126)
Refundable investment tax credits	-	-	(37)
Net future tax liabilities	$ (5,174)	$ (7,463)	$ (7,126)

U.S. dollars and shares in thousands, except per share information

The future income tax liability recognized on the balance sheets relates to the acquired intellectual property of Oxiquant. These acquired intellectual property rights have no basis for income tax purposes and therefore will not provide any income tax deduction as they are amortized. There are no current income taxes due nor are any income taxes expected to be due in the near term.

At December 31, 2005, the Company has unclaimed SR&ED expenditures, income tax loss carry forwards and investment tax credits. The unclaimed amounts and their expiry dates are as listed below:

	Federal	Ontario
SR& ED expenditures (no expiry)	$ 5,602	$ 5,792
Income tax loss carryforwards (expiry date):		
2006	1,572	1,572
2007	543	542
2008	3,133	3,133
2009	3,658	3,658
2013	5,194	5,194
2014	5,571	5,574
2015	3,251	3,251
Investment tax credits (expiry date):		
2008	8	-
2009	7	-
2010	82	-
2011	47	-
2012	468	-
2013	340	-
2014	152	-
2015	51	-

15. Net Loss Per Share

The outstanding number and type of securities that could potentially dilute basic earnings per share in the future and which were not included in the computation of diluted earnings per share, because to do so would have reduced the loss per share (anti-dilutive) for the years presented, are as follows:

	December 31, 2005	December 31, 2004	June 30, 2004
Stock options	5,246	3,762	3,276
Convertible note warrants	615	615	615
Acquisition warrants	461	461	461
Broker warrants	227	1,591	1,591
Investor warrants	11,726	9,902	9,902
Totals	18,275	16,331	15,845

16. Segment Information

The Company operates in one business segment, which is the development of pharmaceutical products based on its licensed and proprietary technologies, with substantially all of its capital assets and operations, which were previously located in Canada moved to the United States in Research Triangle Park, North Carolina.

17. Research and Development Projects

The Company is in the development stage and conducts research and development in the areas of anti-cancer, chemoprotection and chemoenhancement as follows:

Anti-Cancer:

- ADH-1 (Exherin™) is a molecularly-targeted anti-cancer compound that selectively targets N-cadherin, a protein present on certain tumor cells and the established blood vessels that feed solid tumors and is in clinical development.
- Eniluracil is an anti-cancer compound that was previously under development by GSK for oncology indications. Eniluracil is being developed to enhance the therapeutic value and effectiveness of an approved anti-cancer compound called 5-FU and is in clinical development.
- OB-cadherins which are under preclinical development to reduce the metastatic spread of cancer.
- VE-cadherins which are under preclinical development as vascular targeting agents in cancer.

Chemoprotectants and Chemoenhancers:

- STS is a chemoprotectant that has been shown to reduce the disabling loss of hearing in patients being treated with platinum-based anti-cancer agents.
- NAC is a chemoprotectant that has been shown to assist in the prevention of bone marrow toxicity from platinum-based chemotherapy.
- Mesna is a chemoenhancer that, in laboratory studies, has been shown to reduce the development of resistance of cancer cells to certain anticancer agents. Currently, no development activities are planned for mesna.

U.S. dollars and shares in thousands, except per share information

The following summarizes our research and development expenses, net of any investment tax credits or grants, through December 31, 2005:

	Year Ended December 31, 2005	Six Months Ended December 31, 2004	Years Ended June 30, 2004	Years Ended June 30, 2003	Cumulative From September 3, 1996 to December 31, 2005
ADH-1	$ 8,248	$ 2,550	$ 2,503	$ 2,082	$ 18,991
Eniluracil	2,552	-	-	-	2,552
Other anti-cancer	374	358	341	432	2,027
Total anti-cancer	11,174	2,908	2,844	2,514	23,570
STS	472	263	628	144	1,507
Other chemoprotectants and enhancers	17	-	-	16	33
Total chemoprotectants and enhancers	489	263	628	160	1,540
Other discovery projects	778	272	89	71	2,583
Transdermal drug delivery	-	-	-	-	689
Total research and development program expense	$ 12,441	$ 3,443	$ 3,561	$ 2,745	$ 28,382

The Company has made no upfront cash payments for research and development projects and is not obligated to repay research and development amounts to any third parties.

18. Financial Instruments

Financial instruments recognized on the balance sheets at December 31, 2005 consist of cash and cash equivalents, cash pledged as collateral, short-term investments, accounts receivable, accounts payable and other long-term liabilities. The Company does not hold or issue financial instruments for trading purposes and does not hold any derivative financial instruments. With the exception of the other long-term liabilities, the Company believes that the carrying value of its financial instruments approximates their fair values because of their short terms to maturity.

19. Changes in Operating Assets and Liabilities

The following table details the changes in operating assets and liabilities as per the statements of cash flows:

	Year Ended December 31, 2005	Six Months Ended December 31, 2004	Years Ended June 30, 2004	Years Ended June 30, 2003
Accounts receivable	$ 2	$ 25	$ (16)	$ 119
Prepaid expenses	(48)	116	(13)	(40)
Deferred expense	41	394	87	(174)
Investment tax credits recoverable	123	57	122	(138)
Accounts payable and accrued liabilities	885	138	421	(16)
Net changes in operating assets and liabilities	$ 1,003	$ 730	$ 601	$ (249)

U.S. dollars and shares in thousands, except per share information

20. United States Accounting Principles

The consolidated financial statements have been prepared in accordance with Canadian GAAP in U.S. dollars. These principles differ, as they affect the Company, for the fiscal year ended December 31, 2005, the six-months ended December 31, 2004 and for the years ended June 30, 2004 and 2003 in the following material respects from U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). There are no differences in reported cash flow for the periods presented.

(a) Consolidated balance sheets - U.S. GAAP:

	December 31, 2005	December 31, 2004	June 30, 2004
Assets			
Current assets	$ 13,399	$ 17,912	$ 21,558
Other assets	518	9	37
Capital assets	374	652	419
Total assets	$ 14,291	$ 18,573	$ 22,014
Liabilities			
Current liabilities	$ 2,664	$ 1,779	$ 1,467
Other long-term liabilities	13	140	93
Deferred lease inducement	537	-	-
Liability component of convertible notes	-	-	-
Total liabilities	3,214	1,919	1,560
Shareholders' equity			
Common stock	41,306	34,362	33,603
Additional paid-in-capital	23,110	21,760	21,117
Cumulative translation adjustment	1,243	1,243	(149)
Deficit accumulated during development stage	(54,582)	(40,711)	(34,117)
Total shareholders' equity	11,077	16,654	20,454
Total liabilities and shareholders' equity	$ 14,291	$ 18,573	$ 22,014

U.S. dollars and shares in thousands, except per share information

(b) Consolidated statements of operations - U.S. GAAP:

	Year Ended December 31, 2005	Six Months Ended December 31, 2004	Years Ended June 30, 2004	Years Ended June 30, 2003
Net loss in accordance with Canadian GAAP	$ (19,245)	$ (8,065)	$ (8,685)	$ (5,483)
Adjustments to reconcile to U.S. GAAP:				
Acquired intellectual property rights (2)	-	-	-	(20,637)
Acquired intellectual property rights amortization (2)	2,723	1,234	2,323	1,265
Loss on impairment of intellectual property (2)	3,539	-	-	-
Future income taxes (2)	-	-	-	7,543
Future income taxes (2)	(2,290)	(451)	(849)	(462)
Stock-based compensation costs (3)	-	-	(5)	(27)
Stock-based compensation (4)	1,402	598	-	-
Interest charges - convertible notes (5)	-	-	331	6
Net loss in accordance with U.S. GAAP	$ (13,871)	$ (6,684)	$ (6,885)	$ (17,795)
Net loss per share of common stock, basic and diluted	$ (0.35)	$ (0.19)	$ (0.28)	$ (1.38)
Weighted-average number of shares of common stock outstanding, basic and diluted	39,276	35,989	24,233	12,920

(c) Footnotes:

1. Current accounting pronouncements

On June 1, 2005, the FASB issued SFAS 154, “Accounting Changes and Error Corrections,” (“SFAS 154”) which replaces APB 20, “Accounting Changes,” (“APB 20”) and SFAS 3, “Reporting Accounting Changes in Interim Financial Statements.” SFAS 154 applies to all voluntary changes in accounting principle and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable. APB 20 previously required that most voluntary changes in accounting principles be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 carries forward many other provisions of APB 20 without change, including the provisions related to the reporting of a change in accounting estimate, a change in the reporting entity and the correction of an error. The Company will adopt this standard effective December 1, 2005.

2. Acquired intellectual property rights

Canadian GAAP requires the capitalization and amortization of the costs of acquired technology. Under U.S. GAAP, the cost of acquiring technology is charged to expense as in-process research and development (“IPRD”) when incurred if the feasibility of such technology has not been established and no future alternative use exists.

U.S. dollars and shares in thousands, except per share information

This difference increases the loss from operations under U.S. GAAP in the year the IPRD is acquired and reduces the loss under U.S. GAAP in subsequent periods because there is no amortization charge.

Under Canadian GAAP, a future tax liability is also recorded upon acquisition of the technology to reflect the tax effect of the difference between the carrying amount of the technology in the financial statements and the tax basis of these assets which is nil. As the intellectual property is amortized, the future tax liability is also reduced to reflect the change in this temporary difference between the tax and accounting values of the assets. Under U.S. GAAP, because the technology is expensed immediately as IPRD, there is no difference between the tax basis and financial statement carrying value of the assets and therefore no future tax liability exists.

Under U.S. GAAP, the acquired intellectual property is considered IPRD in accordance with “Accounting for Research and Development Costs” (“FAS 2”). Given the Company’s development and patent strategy surrounding the compounds, the acquired intellectual property does not meet the criteria for alternative use as outlined in FAS 2. As a result, the amounts were expensed as IPRD.

During the year ended December 31, 2005 the Company recorded a loss on impairment of intellectual property under Canadian GAAP. Since the amounts were previously expensed as IPRD, the amount is reversed under U.S. GAAP for the year ended December 31, 2005.

3. Stock-based compensation - Initial Public Offering

Under U.S. GAAP, the difference between the exercise price of options issued within a one-year period prior to the IPO and the IPO price is deferred and expensed over the vesting period of the options. This difference increases the additional paid in capital and accumulated deficit reported under U.S. GAAP, with no difference in the total shareholders’ equity.

4. Stock-based compensation

Canadian GAAP requires the fair value of employee and director stock options to be expensed in the statement of operations for fiscal years beginning after January 1, 2004.

Under U.S. GAAP, the fair value of employee and director stock options are not expensed in the statement of operations and are only disclosed in the footnotes to the financial statements. As a result, the expense and accumulated deficit reported under Canadian GAAP will be greater. Had compensation expense for stock options been recorded based on Black-Scholes option-pricing model at the grant date, the net loss under U.S. GAAP would be as follows below:

	Year Ended December 31, 2005	Six Months Ended December 31, 2004	Years Ended June 30, 2004	Years Ended June 30, 2003
Net loss before compensation expense, U.S. GAAP	$ (13,871)	$ (6,684)	$(6,885)	$(17,795)
Compensation expense	1,402	598	-	-
Pro forma net loss, U.S. GAAP	$ (15,273)	$ (7,282)	$(6,885)	$(17,795)
Pro forma net loss per share of common stock, basic and diluted	$ (0.39)	$ (0.20)	$ (0.28)	$ (1.38)

On December 16, 2004, the FASB issued SFAS 123(R), “Share-Based Payment,” which is a revision of SFAS 123, “Accounting for Stock-Based Compensation.” SFAS 123(R) supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and amends SFAS 95, “Statement of Cash Flows.” SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values at the date of grant. Pro forma disclosure in the footnotes to financial statements is no longer an alternative. The Company is required to adopt SFAS 123(R) effective at the beginning of the first quarter of fiscal 2006.

SFAS 123(R) permits public companies to adopt its requirements using one of two methods. The “modified prospective” method recognizes compensation expense based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date, and based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date. The “modified retrospective” method includes the requirements of the modified prospective method described above, but also permits entities to restate their historical financial statements based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either for all prior periods presented, or for prior interim periods of the year of adoption. The Company will adopt the “modified prospective’ method beginning in the first quarter of 2006.

5. Convertible notes and warrants

Under Canadian GAAP, the proceeds from the issue of convertible notes and warrants are split into their relative component parts: debt, the option to convert the debt, and the detachable warrants. Under U.S. GAAP, these instruments are split between the debt and detachable warrant components.

Exhibit 99.2

ADHEREX REPORTS 2005 FISCAL RESULTS

Research Triangle Park, NC, March 31, 2006 — Adherex Technologies Inc. (AMEX:ADH, TSX: AHX), a biopharmaceutical company with a broad portfolio of oncology products under development, today reported its financial results for the twelve-month fiscal period ended December 31, 2005. All amounts are in U.S. dollars unless otherwise stated.

The net loss for the twelve-month fiscal period ended December 31, 2005 was $19.2 million, or $0.49 loss per share, compared to a net loss of $8.1 million, or $0.22 loss per share, for the six-month fiscal transition period ended December 31, 2004. Operating expenses totaled $18.3 million for the twelve-month fiscal period ended December 31, 2005 as compared to $7.4 million for the six-month fiscal transition period ended December 31, 2004. The increased operational expenses primarily reflect the advancement of our product portfolio including increased clinical activity for ADH-1 and the acquisition of eniluracil from GlaxoSmithKline in fiscal 2005.

Cash, cash equivalents and short-term investments totaled $13.1 million as of December 31, 2005 compared to $17.5 million as of December 31, 2004, with a corresponding decrease in working capital of $5.4 million. The decreased cash balance reflects spending to fund operations.

The selected consolidated financial data presented below are derived from our consolidated financial statements prepared under Canadian generally accepted accounting principles and are not complete. Specifically, they exclude the accompanying footnotes, which are an integral part of the consolidated financial statements, including the reconciliation between U.S. and Canadian GAAP and a going concern footnote. The complete audited consolidated financial statements for the year ended December 31, 2005 and management's discussion and analysis of financial condition and results of operations are available on our website at www.adherex.com.

Adherex Technologies Inc.
Selected Financial Data
(U.S. dollars and shares in thousands except per share amounts)

	December 31, 2005	December 31, 2004	June 30, 2004
Condensed Consolidated Balance Sheets:			
Assets:			
Cash, cash equivalents and short-term investments	$ 13,144	$ 17,548	$20,701
Other current and long-term assets	1,147	1,026	1,312
Acquired intellectual property rights	14,154	20,415	19,496
Total Assets	$ 28,445	$ 38,989	$41,509
Liabilities and shareholders' equity:			
Accounts payable and accrued liabilities	$ 2,664	$ 1,779	$ 1,467
Other current and long-term liabilities	550	140	92
Future income taxes	5,174	7,463	7,126
Total shareholders' equity	20,057	29,607	32,824
Total liabilities and shareholders' equity	$ 28,445	$ 38,989	$41,509

	Year Ended December 31, 2005	Six Months Ended December 31, 2004	Years Ended June 30, 2004	2003
Condensed Consolidated Statements of Operations:				
Revenue	$ —	$ —	$ —	$ —
Operating expenses:				
Research and development	12,441	3,443	3,561	2,745
General and administration	3,182	2,727	3,481	1,996
Amortization of acquired intellectual property rights	2,723	1,234	2,323	1,265
(Loss from operations)	(18,346)	(7,404)	(9,365)	(6,006)
Other income (expense):				
Loss on impairment of intellectual property	(3,539)	—	—	—
Settlement of Cadherin Biomedical Inc. litigation	—	(1,283)	—	—
Interest expense	(11)	—	(331)	(11)
Interest income	361	171	162	72
Total other income and (expense)	(3,189)	(1,112)	(169)	61
Loss before income taxes	(21,535)	(8,516)	(9,534)	(5,945)
Recovery of future income taxes	2,290	451	849	462
Net loss	**$ (19,245)**	**$ (8,065)**	**$ (8,685)**	**$ (5,483)**
Net loss per share of common stock, basic and diluted	**$ (0.49)**	**$ (0.22)**	**$ (0.36)**	**$ (0.42)**
Weighted-average number of shares of common stock outstanding, basic and diluted	**39,276**	**35,989**	**24,233**	**12,920**

About Adherex Technologies

Adherex Technologies Inc. is a biopharmaceutical company dedicated to the discovery and development of novel cancer therapeutics. We aim to be a leader in developing innovative treatments that address important unmet medical needs in cancer. We currently have multiple products in the clinical stage of development, including ADH-1 (Exherin™), eniluracil and sodium thiosulfate (STS). ADH-1, our lead biotechnology compound, selectively targets N-cadherin, a protein present on certain tumor cells and established blood vessels that feed solid tumors. Eniluracil, an oral dihydropyrimidine dehydrogenase (DPD) inhibitor, was previously under development by GlaxoSmithKline for oncology indications. STS, a drug from our specialty pharmaceuticals pipeline, protects against the disabling hearing loss that can often result from treatment with platinum-based chemotherapy drugs. With a diversified portfolio of unique preclinical and clinical-stage cancer compounds and a management team with expertise in identifying, developing and commercializing novel cancer therapeutics, Adherex is emerging as a pioneering oncology company. For more information, please visit our website at www.adherex.com.

This press release may contain forward-looking statements that involve significant risks and uncertainties. The actual results, performance or achievements of the Company might differ materially from the results, performance or achievements of the Company expressed or implied by such forward-looking statements. We are subject to various risks, including our history of losses, our need for additional capital to fund our operations, *the early stage of our product candidates, the uncertainties of clinical trials, drug development and regulatory review,* our reliance on collaborative partners *and other risks inherent in the biopharmaceutical industry. For a more detailed discussion of related risk factors, please refer to our public filings available at www.sedar.com and www.sec.gov.*

— END —

For further information, please contact:

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ADHEREX TECHNOLOGIES INC.
NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS
TO BE HELD ON FRIDAY, APRIL 28, 2006

NOTICE IS HEREBY GIVEN that the annual general meeting (the "Meeting") of the holders of common shares ("Common Shares") in the capital of Adherex Technologies Inc. ("Adherex" or the "Corporation") will be held at the Toronto Board of Trade, Downtown Centre, 1 First Canadian Place, 77 Adelaide Street Entrance, Toronto, Ontario at 4 p.m. ET on April 28, 2006 for the following purposes:

1. to receive the consolidated financial statements of the Corporation for the year ended December 31, 2005, together with the report of the auditors thereon;
2. to elect directors;
3. to appoint auditors and to authorize the directors of the Corporation to fix the auditors' remuneration; and
4. to transact such further or other business as may properly come before the Meeting or any adjournment thereof.

A copy of the management proxy circular and a form of proxy accompanies this notice as well as a copy of the Corporation's annual report, which contains the consolidated financial statements of the Corporation for the year ended December 31, 2005, together with the report of the auditors thereon and management's discussion and analysis of financial condition and results of operations relating thereto.

The board of directors of Adherex has fixed 5:00 p.m. ET on March 27, 2006 (the "Record Date") as the record date for determining the holders of record of Common Shares who are entitled to receive notice of the Meeting and to attend and vote at the Meeting and any adjournment or postponement thereof.

Shareholders who are unable to attend the Meeting in person are requested to date and sign the enclosed form of proxy and return it to Computershare Investor Services Inc., 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1, no later than 4:00 p.m. ET on April 27, 2006, or if the Meeting is adjourned or postponed, no later than 24 hours, Saturdays, Sundays and holidays excepted, preceding the Meeting, or any adjournments or postponement thereof. Proxies may also be deposited with the scrutineers of the Meeting, to the attention of the Chair of the Meeting, at and immediately prior to the commencement of the Meeting or any adjournments or postponement thereof. In order to be represented by proxy, you must complete and submit the enclosed form of proxy or other appropriate form of proxy.

DATED at Durham, NC this 24th day of March, 2006.

BY ORDER OF THE BOARD OF DIRECTORS

D. Scott Murray
Vice President, General Counsel and Corporate Secretary

ADHEREX TECHNOLOGIES INC.
MANAGEMENT PROXY CIRCULAR

Unless otherwise stated, information contained in this management proxy circular (the "Circular") is given as of March 24, 2006. Except as otherwise indicated, all amounts are expressed in United States dollars.

Solicitation and Appointment of Proxies

This Circular is furnished in connection with the solicitation of proxies by management of Adherex for use at the annual general meeting (the "Meeting") of the shareholders of Adherex to be held at 4 p.m. ET on April 28, 2006 at the Toronto Board of Trade, Downtown Centre, 1 First Canadian Place, 77 Adelaide Street Entrance, Toronto, Ontario, and at any adjournment thereof, for the purposes set forth in the accompanying notice of annual general meeting (the "Notice of Meeting").

The persons named in the form of proxy accompanying this Circular are officers and/or directors of Adherex. A holder of Common Shares (a "Shareholder") has the right to appoint a person, who need not be a Shareholder, other than the persons named in the form of proxy accompanying this Circular, as nominee to attend and act for and on behalf of such Shareholder at the Meeting, and may exercise such right by inserting the name of such person in the blank space provided on the form of proxy, or by executing a proxy in a form similar to the form of proxy accompanying this Circular. If a Shareholder appoints one of the persons named in the form of proxy accompanying this Circular as the nominee of the Shareholder and does not direct such nominee to vote either for or against or withhold from voting on a matter or matters with respect to which an opportunity to specify how the Common Shares registered in the name of such Shareholder are to be voted, the proxy shall be voted FOR the matter or matters set forth on such proxy and in the discretion of the person appointed on all other matters (if any) upon which the Shareholder is entitled to cast a vote. A proxy nominee need not be a Shareholder. If the Shareholder is a corporation, the proxy must be executed by an officer or properly appointed attorney.

In order for a proxy to be effective at the Meeting, it must be addressed to the Corporate Secretary of Adherex and be mailed to or deposited by hand with Computershare Investor Services Inc., 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1, not later than 4:00 p.m. ET on April 27, 2006 or, if the Meeting is adjourned or postponed, not later than 24 hours (excluding any day which is not a business day) before the time of the adjourned or postponed Meeting, or any further adjournment or postponement thereof. Proxies may also be deposited with the scrutineers of the Meeting, to the attention of the Chair of the Meeting, at or immediately prior to the commencement of the Meeting, or any adjournment or postponement thereof. An undated but executed proxy will be deemed to be dated the date of this Circular.

The solicitation of proxies for the Meeting will be primarily by mail, but proxies may also be solicited personally or by telephone by employees or agents of Adherex. Employees of Adherex will not receive any extra compensation for such activities. Adherex will pay brokers or other persons holding Common Shares in their own names, or in the names of nominees, for their reasonable expenses for sending proxies and proxy material to beneficial owners of Common Shares and requesting authority to execute proxies in respect of such Common Shares. **The solicitation of proxies by this Circular is being made by or on behalf of the management of Adherex and its board of directors (the "Board") and the total cost of this solicitation will be borne by Adherex.**

Voting of Proxies

The Common Shares represented by a proxy at the Meeting will be voted for or withheld from voting in each of the election of directors and appointment of auditors and authorizing the Board to fix the auditors remuneration

(together, the "Ordinary Matters") in accordance with the instructions of the Shareholder. **If no choice is specified in the proxy or the instructions are not certain, the persons named in the form of proxy accompanying this Circular will vote FOR all of the matters proposed by management at the Meeting and described in the Notice of Meeting and in the discretion of the person appointed on all other matters (if any) upon which the Shareholder appointing the proxy is entitled to cast a vote.**

The form of proxy accompanying this Circular, when properly completed and executed, confers discretionary authority upon the persons named therein with respect to any amendment or variation to the matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting. Management of Adherex and the Board knows of no matters to come before the Meeting other than those referred to in the Notice of Meeting. However, if any other matters that are not now known to management of Adherex or the Board should properly come before the Meeting, the Common Shares represented by proxies given in favour of the persons named in the form of proxy accompanying this Circular will be voted on such matters in accordance with the discretion of such person.

Revocation of Proxies

A Shareholder may revoke a previously given proxy by:

(i) completing and signing a proxy bearing a later date and depositing it with Computershare Investor Services Inc. as described above;

(ii) depositing an instrument in writing signed by the Shareholder or an attorney authorized by a document signed in writing or by electronic signature (if the Shareholder is a corporation, under its corporate seal by an officer or attorney thereof properly authorized, indicating the capacity under which such officer or attorney is signing), or by transmitting, by telephonic or electronic means, a revocation signed by electronic signature, or by any other manner permitted by law, which must be received either (A) with Computershare Investor Services Inc., 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1, not later than 4:00 p.m. ET on April 27, 2006 or (B) with the scrutineers of the Meeting to the attention of the Chair of the Meeting on the day of the Meeting prior to the taking of the vote to which such proxy relates, or any adjournment thereof; or

(iii) in any other manner permitted by law.

Advice to Beneficial Holders of Common Shares

This section applies to beneficial holders of Common Shares only. The information set forth in this section is of significant importance to many holders of Common Shares, as a substantial number of Shareholders do not hold Common Shares in their own name.

The Notice of Meeting, the proxy and this Circular are being sent to both registered and non-registered owners of Common Shares. Only registered holders of Common Shares, or the persons that they appoint as proxies, are permitted to attend and vote at the Meeting. In many cases, however, Common Shares are beneficially owned by a shareholder (a "Beneficial Holder") and are registered either:

1. in the name of an intermediary (an "Intermediary") that the Beneficial Holder deals with in respect of the Common Shares, such as, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans; or
2. in the name of a clearing agency (such as The Canadian Depository for Securities Limited ("CDS")) of which the Intermediary is a participant.

In accordance with the requirements of National Instrument 54-101 – Communication with Beneficial Owners of Securities of a Reporting Issuer of the Canadian Securities Administrators, the Corporation has distributed copies

of the Notice of Meeting, the proxy and this Circular (collectively, the "Meeting Materials") to CDS and all of the Intermediaries for delivery to Beneficial Holders.

Intermediaries are required to forward the Meeting Materials to Beneficial Holders unless a Beneficial Holder has waived the right to receive them. Often, Intermediaries will use service companies to forward the Meeting Materials to Beneficial Holders. Generally, Beneficial Holders who have not waived the right to receive Meeting Materials will either:

(a) be given a proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature) which is restricted as to the number of Common Shares beneficially owned by the Beneficial Holder but which is otherwise uncompleted – because it has already been signed by the Intermediary, this proxy does not need to be signed by the Beneficial Holder and, in this case, the Beneficial Holder who wishes to submit a proxy should properly complete the proxy and deposit it with Computershare as described above; or

(b) more typically, be given a voting instruction form which is not signed by the Intermediary, and which, when properly completed and signed by the Beneficial Holder and returned to the Intermediary or its service company, will constitute voting instructions (often called a "proxy authorization form") which the Intermediary must follow. Typically, the proxy authorization form will consist of a one page, pre-printed form. Sometimes, instead of the one page, pre-printed form, the proxy authorization form will consist of a regular printed proxy form accompanied by a page of instructions, which contains a removable label containing a bar-code and other information. In order for the form of proxy to validly constitute a proxy authorization form, the Beneficial Holder must remove the label from the instructions and affix it to the form of proxy, properly complete and sign the form of proxy and return it to the Intermediary or its service company in accordance with the instructions of the Intermediary or its service company.

The purpose of these procedures is to permit Beneficial Holders to direct the voting of the Common Shares that they beneficially own. If a Beneficial Holder who receives either a proxy or a voting instruction form wishes to attend and vote at the Meeting in person (or have another person attend and vote on behalf of the Beneficial Holder), the Beneficial Holder should strike out the names of the persons named in the proxy and insert the Beneficial Holder's (or such other person's) name in the blank space provided or, in the case of a voting instruction form, follow the corresponding instructions on that form. **In either case, Beneficial Holders should carefully follow the instructions of their Intermediaries and their service companies, including those regarding when and where the proxy or proxy authorization form is to be delivered.**

Record Date and Entitlement to Vote

The Record Date for the purpose of determining Shareholders entitled to receive the Circular and to vote at the Meeting has been fixed as 5 p.m. ET on March 27, 2006 (the "Record Date"). Each Shareholder at the close of business (5 p.m. ET) on the Record Date is entitled to attend the Meeting in person or by proxy and to cast one (1) vote for each Common Share held by such Shareholder on the Record Date.

Quorum

According to the Corporation's by-laws, since the Corporation's Common Shares are now listed on the American Stock Exchange, the quorum for the transaction of business at any meeting of Shareholders shall be two or more persons present in person or represented by proxy holding not less than 33 1/3% of the then issued and outstanding Common Shares.

Voting Securities and Principal Holders of Voting Securities

Effective July 29, 2005, we consolidated our Common Shares at a ratio of one Common Share for every five Common Shares then outstanding. The share consolidation equally affected all of our Common Shares, stock

options and warrants outstanding at the effective date. The number of Common Shares, stock options and warrants as well as per share data and per stock option data have been adjusted for all periods presented to reflect the one-for-five share consolidation. As at March 24, 2006, there were 42,628,933 Common Shares issued and outstanding. Each Common Share carries the right to one vote at the Meeting.

At the close of trading on March 24, 2006, to the knowledge of the directors and senior officers of Adherex, as of the date of this Circular, only HBM BioVentures (Cayman) Ltd. beneficially owns, directly or indirectly, or exercises control or direction over, voting securities of Adherex carrying more than 10% of the voting rights attached to all of the outstanding Common Shares as follows:

Shareholder	No. of Common Shares	% of Outstanding
HBM BioVentures (Cayman) Ltd.	5,592,717(1)	13.1%

(1) Excludes a warrant to purchase 107,142 shares of common stock at an exercise price of CAD$2.15, expiring December 3, 2007, a warrant to purchase 1,883,286 shares of common stock at an exercise price of CAD$2.15, expiring December 19, 2008, a warrant to purchase 377,358 shares of common stock at an exercise price of CAD$3.50, expiring May 20, 2007 and a warrant to purchase 321,429 shares of common stock at an exercise price of U.S. $1.40, expiring on July 20, 2008.

As at March 24, 2006, the directors and senior officers of Adherex and, to the knowledge of the directors and senior officers of Adherex, after reasonable enquiry, their respective associates, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 1,714,324 Common Shares (approximately 4.0% of all outstanding Common Shares on such date) and options and warrants to purchase 4,518,057 Common Shares (approximately 7.4% of the aggregate of all outstanding Common Shares and all Common Shares subject to outstanding options and warrants to purchase Common Shares on such date).

Approval Requirements and Eligible Voting Shares

Each of the Ordinary Matters must be approved by a simple majority of the votes cast by Shareholders, present in person or by proxy at the Meeting. For these purposes, any spoiled votes, illegible votes, defective votes and abstentions will not be considered votes cast.

Other Business

Other than the Ordinary Matters, management of Adherex does not intend to present and does not have any reason to believe that others will present, at the Meeting, any item of business other than those set forth in this Circular. If, however, any other business is properly presented at the Meeting and may properly be considered and acted upon, proxies will be voted by those named in the applicable form of proxy in their sole discretion, including with respect to any amendments or variations to the matters identified herein.

ORDINARY MATTERS

Election of Directors

The number of directors of Adherex to be elected at the Meeting is seven (7). The following are the names of the persons for whom it is intended that votes will be cast for their election as directors of the Corporation pursuant to the proxy which is hereby solicited, unless the Shareholder directs therein that such Shareholder's Common Shares be withheld from voting in the election of directors:

Dr. William P. Peters
Mr. Raymond Hession
Dr. Donald W. Kufe
Dr. Fred H. Mermelstein
Dr. Peter Morand
Dr. Robin J. Norris
Dr. Arthur T. Porter

The term of office for each such person will be until Adherex's next annual meeting or until such person's successor is elected or appointed. **In the event that prior to the Meeting any vacancies occur in the slate of nominees submitted above, it is intended that discretionary authority shall be exercised to vote the proxy hereby solicited (unless otherwise directed as aforesaid) for the election of any other person or persons as directors. Adherex management is not now aware that any of such nominees would be unwilling to serve as a director if elected.**

The following table sets forth the name of each person proposed at the date hereof to be nominated by management for election to the Board, such person's principal occupation or employment, all other positions with Adherex and any significant affiliate thereof now held by such person, if any, the year in which such person became a director of Adherex and the number of Common Shares beneficially owned by such person, directly or indirectly, or over which such person exercises control or direction.

The Corporation has an Audit Committee, a Compensation Committee, a Nominating Committee and a Governance Committee. The members of such committees are listed below.

Name and Province/State and Country of Residence, Position	Current Principal Occupation and Principal Occupation For Previous Five Years	Director Since	Number of Common Shares Held	% of Common Shares Held
William P. Peters, MD, PhD, MBA Florida, USA Chief Executive Officer and Chairman of the Board of Directors	Chairman and CEO of Adherex; previously, President, Institute for Strategic Analysis and Innovation of the Detroit Medical Center, and President, Director and CEO of the Karmanos Cancer Institute	Nov 2002	115,982	0.27%
Raymond Hession (1)(2)(4) Ontario, Canada Lead Independent Director of the Board of Directors	Chairman, Ontario Health Quality Council; Immediate Past Chairman, The Ottawa Hospital	Dec 1998	171,832	0.40%
Donald W. Kufe, MD (2)(3) Massachusetts, USA Director	Professor of Medicine, Dana-Farber Cancer Institute, Harvard Medical School	Dec 2003	—	—

Name and Province/State and Country of Residence, Position	Current Principal Occupation and Principal Occupation For Previous Five Years	Director Since	Number of Common Shares Held	% of Common Shares Held
Fred H. Mermelstein, PhD (3)(4) Boston, USA Director	Founder, CEO and President of Javelin Pharmaceuticals, Inc.; previously, Director of Venture Capital, Paramount Capital Investments, LLC	Nov 2002	1,363,410	3.20%
Peter Morand, PhD (1)(4) Ontario, Canada Director	President, Peter Morand & Associates	Dec 1998	55,000	0.13%
Robin J. Norris, MD North Carolina, USA President, Chief Operating Officer and Director	President and COO of Adherex; previously, COO of PowderJect plc	Nov 2002	8,100	0.02%
Arthur T. Porter, MD, MBA (1)(2)(3) Quebec, Canada Director	Executive Director, McGill University Health Centre; previously, President and CEO, Detroit Medical Center	Feb 2004	—	—

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Nominating Committee
(4) Member of the Governance Committee

William P. Peters, MD, PhD, MBA

Dr. Peters has been the Chief Executive Officer of Adherex since March 2003, the Chairman of the Board since February 2004, and a member of the Board since November 2002. From March 2003 to February 2004, Dr. Peters served as the Vice Chairman of the Board. Dr. Peters has served on the faculty at Harvard University, Duke University and Wayne State University. He originated the solid tumor high-dose chemotherapy and bone marrow transplant program at the Dana-Farber Cancer Institute, and was Director of Bone Marrow Transplantation, Professor of Medicine at Duke University from 1984 to 1995 and was an Associate Director of the Cancer Center. He then became President, Director and CEO of the Karmanos Cancer Institute from 1995 to 2001. Simultaneously, he served as Associate Dean for Cancer at Wayne State University and Senior Vice President for Cancer Services at the Detroit Medical Center. In 2001, he organized the Institute for Strategic Analysis and Innovation at the Detroit Medical Center of which he served as President. Dr. Peters has three Bachelor's degrees (Biochemistry, Biophysics and Philosophy) from the Pennsylvania State University, received his MPhil, MD and PhD degrees from the Columbia University College of Physicians & Surgeons in New York and trained clinically at Harvard University Medical School's Brigham and Women's Hospital and Dana-Farber Cancer Institute in Boston, MA. He is board certified in internal medicine and medical oncology. He earned his MBA at the Duke University Fuqua School of Business. Dr. Peters also serves on the board of directors of Aegera Therapeutics Inc. and Javelin Pharmaceuticals, Inc.

Raymond Hession

Mr. Hession has been on the Board of Adherex since December 1998. Mr. Hession is Chairman of the Ontario Health Quality Council and Immediate Past Chairman of The Ottawa Hospital. Mr. Hession has previously served as President of Canada Mortgage and Housing Corporation, Deputy Minister of Industry for the Canadian Government and President of Kinburn Technologies Corporation.

Donald W. Kufe, MD

Dr. Kufe has been on the Board of Adherex since December 2003. Dr. Kufe is the chair of the Scientific and Clinical Advisory Board of Adherex. Dr. Kufe received his MD in 1970 from the University of Rochester School of Medicine and postgraduate training at Harvard's Beth Israel Hospital. Subsequently, he undertook extensive laboratory-based research in molecular virology at the Institute of Cancer Research of Columbia University. In 1979, he joined the faculty of Harvard's Dana-Farber Cancer Institute where he is now Professor of Medicine. He has served as Chief of the Division of Cancer Pharmacology, Deputy Director of the Dana-Farber Cancer Center, Director of the Harvard Phase I Oncology Group and Leader of the Experimental Therapeutics Program. He has served as the senior editor of Cancer Medicine, one of the major text books in oncology, and on the editorial board of multiple international cancer research journals.

Fred H. Mermelstein, PhD

Dr. Mermelstein has been a director of Adherex since November 2002. Dr. Mermelstein is a founder, CEO and President of Javelin Pharmaceuticals, Inc. (formerly Innovative Drug Delivery Systems, Inc.) and served as Director of Venture Capital at Paramount Capital Investments, LLC, a merchant banking and venture capital firm specializing in biotechnology, from 1998 to 2003. He has served as director and Chief Science Officer of PolaRx Biopharmaceuticals, and is a director of both Cardiome Pharma and the Jordan Heart Foundation. Dr. Mermelstein holds a dual Ph.D. in Pharmacology and Toxicology from Rutgers University and University of Medicine and Dentistry of New Jersey (UMDNJ) Robert Wood Johnson Medical School. He completed his post-doctoral training supported by two grant awards, a National Institutes of Health fellowship and a Howard Hughes Medical Institute fellowship in the department of biochemistry at UMDNJ Robert Wood Johnson Medical School.

Peter Morand, PhD

Dr. Morand has been a director of Adherex since December 1998. Dr. Morand is President of Peter Morand & Associates Inc. and previously served as President, CEO and director of the Canadian Science and Technology Growth Fund Inc., a venture capital fund that invests in the commercialization of the results of early-stage advanced technology companies, from 1996 to 2005. Dr. Morand is a member of the Boards of Directors of D-Box Technology Inc., the Institute on Governance and the Ottawa Life Sciences Council (past Chair) and is a member of the Advisory Boards of Variation Biotechnologies Inc. and the Institute on Biodiagnostics. Dr. Morand is past President of the Natural Sciences and Engineering Research Council (NSERC, 1990-95), a Canadian federal agency that invests more than $600 million annually in support of university research. Prior to his NSERC appointment, Dr. Morand spent many years at the University of Ottawa as Professor of Chemistry and occupied the positions of Dean of Science and Engineering and Vice Rector. Dr. Morand started his career in the pharmaceutical industry at Ayerst Laboratories.

Robin J. Norris, MD

Dr. Norris has been the Chief Operating Officer of Adherex since January 2002, President of Adherex since June 2002 and a member of the Board since November 2002. Prior to joining Adherex, Dr. Norris was Chief Operating Officer and Chairman of the Scientific Advisors Committee of PowderJect plc from March 1998 to December 2001 and Chief Operating Officer of Noven Inc. from March 1995 to March 1998. Dr. Norris received his medical education and degree in the United Kingdom with postgraduate qualifications in obstetrics, general medicine and pharmaceutical medicine. Following eight years of clinical practice, Dr. Norris has spent over 20 years in the pharmaceutical industry, predominantly based in the United States, but with global drug development responsibilities. During his career, Dr. Norris has been responsible for the successful development of a wide range of pharmaceutical products and devices moving and transitioning them from fundamental "bench-level" research and development through the regulatory process and into the global marketplace.

Arthur T. Porter, MD, MBA

Dr. Porter, who has served as a director of Adherex since February 2004, was originally nominated pursuant to an arrangement with HBM BioVentures (Cayman) Ltd. Dr. Porter has served as the Executive Director of the McGill University Health Centre since January 2004. Dr. Porter was the President and Chief Executive Officer of the Detroit Medical Center from 1999 to 2003. From 1991 to 1998, Dr. Porter served as the Chief of the Gershenson Radiation Oncology Center at Harper Hospital, Radiation Oncologist-in-Chief at the Detroit Medical Center. He has also served as Senior Radiation Oncologist at the Cross Cancer Institute in Edmonton, Alberta and Associate Professor in the Faculty of Medicine at the University of Alberta, Chief of the Department of Radiation Oncology at the London Regional Cancer Centre and Chairman of the Department of Oncology at Victoria Hospital Corporation. Dr. Porter has served as a director of Munder Funds since 2002 and Universal Healthcare Management Systems since 2003.

Appointment of Auditors

The persons named in the accompanying form of proxy intend to vote for the re-appointment of PricewaterhouseCoopers LLP as Adherex's auditors to hold office until the next annual meeting of Shareholders and to authorize the Board to fix the remuneration of the auditors, unless the Shareholder has specified in the form of proxy that the shares represented by such form of proxy are to be withheld from voting in respect thereof. PricewaterhouseCoopers LLP was first appointed the Corporation's auditors on March 17, 1999.

STATEMENT OF EXECUTIVE COMPENSATION

The Corporation changed its financial year from June 30 to December 31 effective December 31, 2004.

Summary Compensation Table

The following table, presented in accordance with the rules and regulations under the *Securities Act* (Ontario), sets forth all annual and long-term compensation for services in all capacities to the Corporation for the three most recently completed financial periods in respect of each of the individuals comprised of the Chief Executive Officer and the Chief Financial Officer and the other three most highly compensated executive officers of the Corporation at December 31, 2005 whose total annualized salary and bonus for the year ended December 31, 2005 would exceed CAD$150,000 (together, the "Named Executive Officers"). Unless otherwise stated, amounts are in United States dollars, our current reporting and functional currency.

		Annual Compensation			Long-Term Compensation Awards	
Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Securities Under Options Granted(6)	All Other Compensation ($)
Dr. William P. Peters(1)	December 2005	454,167	60,000	Nil	813,601	2,327
Chief Executive Officer and Chairman of the Board	December 2004(7)	212,500	182,500	Nil	32,000	4,856
	June 2004	356,250	335,000	Nil	1,004,217	Nil
	June 2003	106,500*	40,000*	Nil	750,000	Nil
James A. Klein, Jr.(2)	December 2005	185,000	55,500	Nil	52,500	1,053
Chief Financial Officer	December 2004(7)	80,000	50,000	Nil	5,000	385
	June 2004	29,697	15,000	Nil	215,000	Nil
	June 2003	Nil	Nil	Nil	Nil	Nil
Dr. Robin Norris(3)	December 2005	236,000	70,800	Nil	60,000	2,157
President and Chief Operating Officer	December 2004(7)	112,500	57,000	Nil	Nil	4,408
	June 2004	225,000	52,500	Nil	112,000	Nil
	June 2003	225,000*	Nil	Nil	40,000	Nil
Dr. Rajesh K. Malik(4)	December 2005	235,000	67,500	Nil	16,800	1,289
Chief Medical Officer	December 2004(7)	58,583	35,000	Nil	150,000	199
	June 2004	Nil	Nil	Nil	Nil	Nil
	June 2003	Nil	Nil	Nil	Nil	Nil
Dr. Brian Huber(5)	December 2005	185,000	55,500	Nil	64,000	1,366
Chief Scientific Officer	December 2004(7)	30,708	25,000	Nil	150,000	119
	June 2004	Nil	Nil	Nil	Nil	Nil
	June 2003	Nil	Nil	Nil	Nil	Nil

*** Represents amounts in Canadian dollars.**

(1) Dr. Peters joined the Corporation as CEO and Vice Chairman on March 12, 2003 and was appointed Chairman on February 28, 2004. Pursuant to an agreement dated February 19, 2003, Dr. Peters received an initial annual salary of US$350,000. Compensation presented for fiscal year ended June 2003 represents approximately 4 months compensation. Dr. Peters' current annual salary is US$486,875.

(2) Mr. Klein joined the Corporation as Chief Financial Officer on April 26, 2004. Pursuant to an agreement dated April 26, 2004, Mr. Klein received an initial annual salary of US$160,000. Compensation presented for fiscal year ended June 2004 represents approximately 2 months compensation. Mr. Klein's current salary is US$197,950.

(3) Dr. Norris joined the Corporation as Chief Operating Officer on January 1, 2002 and was appointed President of the Corporation on June 14, 2002. Pursuant to an agreement dated December 12, 2001, Dr. Norris received an initial annual salary of CAD$225,000. Dr. Norris' current salary is US$245,440.

(4) Dr. Malik joined the Corporation as the Chief Medical Officer on September 7, 2004. Pursuant to an agreement dated August 9, 2004, Dr. Malik received an initial annual salary of US$185,000. Compensation presented for fiscal period ended December 2004 represents approximately 4 months compensation. Dr. Malik's current salary is US$257,500.

(5) Dr. Huber joined the Corporation as Chief Scientific Officer on October 25, 2004. Pursuant to an agreement dated October 25, 2004, Dr. Huber received an initial annual salary of US$165,000. Compensation presented for fiscal period ended December 2004 represents approximately 2 months compensation. Dr. Huber's current salary is US$203,500.

(6) Securities Under Options Granted indicates the number of Common Shares under options granted in the indicated fiscal period only.

(7) The fiscal year December 2004 consisted of only six months, or the period from July 1, 2004 through December 31, 2004, as the Corporation changed its fiscal year end from June 30 to December 31 effective December 31, 2004.

Options

The following table sets forth stock options to purchase Common Shares granted to the Named Executive Officers under the Stock Option Plan, or otherwise, during the year ended December 31, 2005:

Name and Position	Securities Under Options Granted (#)	% of Total Options Granted in Financial Year	Exercise or Base Price ($/Security)	Market Value of Securities Underlying Options on the Date of Grant ($/Security)	Expiration Date
Dr. William P. Peters	441,601	50.8%	$1.20	$1.20	2012
Chief Executive Officer and	192,000		$1.20	$1.20	2012
Chairman of the Board	150,000		$1.10	$1.10	2012
	30,000		$0.88	$0.88	2012
James A. Klein, Jr.	13,500	3.3%	$1.20	$1.20	2012
Chief Financial Officer	39,000		$0.88	$0.88	2012
Dr. Robin Norris	15,000	3.7%	$1.20	$1.20	2012
President and Chief Operating Officer	45,000		$0.88	$0.88	2012
Dr. Rajesh K. Malik	7,200	1.0%	$1.20	$1.20	2012
Chief Medical Officer	9,600		$0.88	$0.88	2012
Dr. Brian E. Huber	12,000	4.0%	$1.20	$1.20	2012
Chief Scientific Officer	52,000		$0.88	$0.88	2012

Aggregated Option Exercises and Fiscal Period-End Option Values

The following table sets forth details of all exercises of stock options to purchase Common Shares during the year ended December 31, 2005 by each of the Named Executive Officers and the financial period-end value of unexercised in-the-money options on an aggregated basis:

Name and Position	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options at December 31, 2005 Exercisable / Unexercisable (#)	Value of Unexercised in-the-Money Options at December 31, 2005 Exercisable / Unexercisable ($)
Dr. William P. Peters Chief Executive Officer and Chairman of the Board	Nil	Nil	2,419,818/180,000	Nil/Nil
James A. Klein, Jr. Chief Financial Officer	Nil	Nil	111,667/160,833	Nil/Nil
Dr. Robin Norris President and Chief Operating Officer	Nil	Nil	207,066/124,934	Nil/Nil
Dr. Rajesh K. Malik Chief Medical Officer	Nil	Nil	75,000/91,800	Nil/Nil
Dr. Brian E. Huber Chief Scientific Officer	Nil	Nil	75,000/139,000	Nil/Nil

Securities Authorized for Issuance Under Equity Compensation Plan

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved	3,663,741	CAD$2.39	
by security holders(1)	1,582,806	US$1.14	1,016,853
Equity compensation plans not approved by security holders	Nil	Nil	Nil
Total	5,246,547	N/A	1,016,853

(1) The current Stock Option Plan provides for grants denominated in US and CAD dollars. This table presents the number and weighted-average exercise price of outstanding options by the currency associated with the original grants. The numbers presented include 700,000 options with an exercise price of CAD$2.25 that were specifically approved by the Corporation's shareholders on December 16, 2003 and granted to Dr. Peters outside of the Adherex Stock Option Plan.

Termination of Employment, Change in Responsibilities and Employment Contracts

Pursuant to an employment agreement dated February 19, 2003 between Dr. William P. Peters and Adherex, Dr. Peters became employed as Chief Executive Officer and Vice Chairman of the Adherex effective March 12, 2003 for a five-year term, and was appointed Chairman of the Board on February 28, 2004. Pursuant to this agreement, Dr. Peters (a) received an initial annual salary in the amount of US$350,000 (Dr. Peters' current annual salary is US$486,875), (b) received a signing bonus totaling US$200,000, of which US$40,000 was paid at the time of signing and US$80,000 was paid on each of July 1, 2003 and December 15, 2003, and (c) was granted an option to purchase up to 750,000 Common Shares at an exercise price of CAD$1.65 per share. The

employment agreement also provided that on one occasion, upon the closing of an equity financing or strategic partner contract of at least US$3.75 million, Dr. Peters would be granted additional options sufficient for his aggregate option holdings to be 5% of the Common Shares of Adherex, calculated on a fully diluted basis, immediately following the closing of such a transaction, subject to and conditional upon applicable regulatory and shareholder approvals (the "Financing Grant Provision"). Accordingly, upon the occurrence of such a transaction in December 2003, the Financing Grant Provision provided for Dr. Peters to receive options to purchase 1,477,819 Common Shares, which would have brought his option holdings to 5% on a fully diluted basis, subject to applicable regulations and approvals. Adherex obtained shareholder approval on December 16, 2003 for 700,000 of such shares that were granted to Dr. Peters outside of Adherex's Stock Option Plan. However, at that time, the Toronto Stock Exchange required that no person may hold options representing more than 5% of Adherex's equity at any given time on an issued and outstanding basis (the "TSX Limit"). Accordingly, on December 30, 2003, Dr. Peters was granted options to purchase 770,217 Common Shares at an exercise price of CAD$2.25 per share, which together with Common Shares issuable under his other option holdings represented 5% of the issued and outstanding Common Shares at such time. In May 2004, Adherex made a further grant to Dr. Peters under the Financing Grant Provision of options to purchase 234,000 Common Shares at an exercise price of CAD$2.90 per share when Adherex increased its issued and outstanding shares by virtue of its two equity financings in that month. In December 2004, the Corporation made a further grant to Dr. Peters under the Financing Grant Provision of options to purchase 32,000 Common Shares at an exercise price of CAD$1.95 per share. Finally, on April 5, 2005, Adherex made a grant to Dr. Peters of options to purchase 441,601 Common Shares at an exercise price of US$1.20 per share, representing the remaining of the originally targeted 1,477,819 options under the Financing Grant Provision. The agreement also provides that annual bonuses, if any, will be awarded to Dr. Peters at the sole discretion of the Board. In the event of termination without "cause," or in the event Dr. Peters terminates his employment for Good Reason or a Change of Control (as such terms are defined in the agreement), Adherex is obligated to pay Dr. Peters severance compensation equal to 24 months of salary. On October 14, 2005, the term of Dr. Peters' employment agreement was extended by the Board through March 2010.

Pursuant to an employment agreement dated April 26, 2004 between James A. Klein, Jr. and Adherex, Mr. Klein is employed as Adherex's Chief Financial Officer. Pursuant to this agreement, Mr. Klein (a) received an initial annual salary in the amount of US$160,000 (Mr. Klein's current annual salary is US$197,950), (b) was granted options to purchase up to 200,000 Common Shares at a price per share of CAD$2.65 under Adherex's Stock Option Plan, (c) received a signing bonus of US$15,000, and (d) may receive annual bonuses at the sole discretion of the Board. If Mr. Klein's employment terminates due to a change in control of Adherex, any then-remaining unvested shares shall immediately vest and be fully exercisable. If Mr. Klein is dismissed from employment by Adherex for any reason other than "cause," Adherex is obligated to pay Mr. Klein severance compensation equal to six months of salary.

Pursuant to an employment agreement dated December 12, 2001 between Dr. Robin Norris and Adherex, Dr. Norris became employed as Adherex's Chief Operating Officer, and was appointed President of Adherex on June 14, 2002. Pursuant to this agreement, Dr. Norris (a) received an initial annual salary in the amount of CAD$225,000 (Dr. Norris' current annual salary is US$245,440), (b) was granted options to purchase up to 120,000 Common Shares at a price per share of CAD$1.65 under Adherex's Stock Option Plan, and (c) was reimbursed for certain expenses related to his relocation from Colorado to Ottawa. If Dr. Norris is dismissed from employment by Adherex for any reason other than "cause," Adherex is obligated to pay Dr. Norris severance compensation equal to 12 months of salary.

Pursuant to an employment agreement dated August 9, 2004 between Dr. Rajesh K. Malik and the Corporation, Dr. Malik is employed as our Chief Medical Officer. Pursuant to this agreement, Dr. Malik (a) received an initial annual salary in the amount of US$185,000 (Dr. Malik's current annual salary is US$257,500), (b) was granted options to purchase up to 150,000 Common Shares at a price per share of CAD$2.00 under Adherex's Stock Option Plan, (c) received a signing bonus of US$35,000, and (d) may receive annual bonuses at the sole discretion of the Board. If Dr. Malik's employment terminates due to a change in control of the Corporation, any

then remaining unvested shares shall immediately vest and be fully exercisable. If Dr. Malik is dismissed from employment by the Corporation without "cause," we are obligated to pay Dr. Malik severance compensation consisting of health insurance benefits and his then current base salary for the lesser of six months or until he has accepted alternative employment.

Pursuant to an employment agreement dated October 25, 2004 between Dr. Brian E. Huber and the Corporation, Dr. Huber is employed as the Chief Scientific Officer. Pursuant to this agreement, Dr. Huber (a) received an initial annual salary in the amount of US$165,000 (Dr. Huber's current annual salary is US$203,500), (b) was granted options to purchase up to 150,000 Common Shares at a price per share of CAD$1.95 under Adherex's Stock Option Plan, (c) received a signing bonus of US$25,000, and (d) may receive annual bonuses at the sole discretion of the Board. If Dr. Huber is dismissed from employment by the Corporation without "cause," we are obligated to pay Dr. Huber severance compensation consisting of health insurance benefits and his then current base salary for the lesser of six months or until he has accepted alternative employment.

On December 14, 2005, the Corporation amended the option agreements with current executive officers and members of the Board relating to options granted prior to and on that date to provide that such executive officers and members of the Board would be allowed up to three years after concluding their employment or engagement with the Corporation to exercise their options that have vested on or prior to such conclusion of employment or engagement, provided that no options shall vest following such cessation of employment or engagement.

In addition to such employment agreements, each of Drs. Peters, Norris, Malik and Huber, as well as Mr. Klein, is a party to a confidentiality and intellectual property agreement with Adherex.

Composition of the Compensation Committee

The following served as members of the Compensation Committee during fiscal period ending December 31, 2005, in each case for the entire fiscal year:

Dr. Porter (Chair)
Mr. Hession
Dr. Kufe.

The Board has determined that each member of the Compensation Committee is "independent."

Report on Executive Compensation

The Compensation Committee submitted the following report on executive compensation.

Mandate of the Compensation Committee

It is the task of the Compensation Committee to periodically review Adherex's compensation structure with respect to its executive officers, including its Chief Executive Officer, to ensure that Adherex continues to attract and retain qualified and experienced individuals to its management team and to motivate these individuals to perform to the best of their ability and in Adherex's best interests. The Compensation Committee determines the compensation of the executive officers of the Corporation, evaluates and approves the compensation plans, policies and programs of the Corporation and recommends to the Board from time to time other incentive compensation plans that it determines should be considered. In February 2004, Adherex's Board restated the charter of the Compensation Committee, a current copy of which can be found in the corporate governance section of Adherex's website at www.adherex.com.

General Compensation Philosophy

The key components of executive officer compensation are salaries, bonuses and stock options, with salaries currently receiving the greatest emphasis followed by bonuses and then stock options. Adherex's policy with

respect to the compensation of executive officers is to establish annual goals with respect to corporate development and the individual areas of responsibility of each executive officer and then to review total compensation with respect to the achievement of these goals. In addition, the Compensation Committee recognizes the importance of ensuring that overall compensation for executive officers is competitive in today's market in order to attract, retain and motivate individuals with the qualifications and commitment needed to enhance shareholder value and maintain Adherex's competitiveness in its market segment. In order to assess this competitiveness, the Corporation has identified a comparator group consisting of seven local and ten other U.S. and Canadian organizations in the biotechnology industry that have comparable market capitalizations, products for cancer under development and/or product candidates at similar stages of development.

Salary and Cash Bonuses

It is Adherex's policy that the base salaries paid to its executive officers, in addition to the criteria set out above, reflect Adherex's success in achieving the prior year's goals as well as the individual's responsibility, experience and achievements. Each year a series of objectives are set out for each executive and for the executive team as a whole to determine the opportunity for cash bonuses. These objectives are prioritized and assigned potential values in light of overall company objectives, including with respect to scientific, clinical, regulatory, intellectual property, business and corporate development and financial objectives. Both base salaries and bonuses are reviewed by the Compensation Committee on an annual basis to ensure that the relevant criteria are satisfied. Adherex's executive officers demonstrated outstanding effort and dedication in 2005 and helped the Corporation achieve several of its key objectives, including Adherex's entering into the development and license agreement with GlaxoSmithKline (GSK) and the advancement of certain of its product candidates in preclinical and clinical development. The bonus payouts for 2005 reflect both the level of each executive's achievement of individual objectives as well as the level of the executive team's achievement of its goals.

Stock Options

The annual compensation considerations also include the awarding of stock options. The granting of options to the executive officers under Adherex's Stock Option Plan serves three purposes: (1) to recognize significant performance during the past year, (2) to provide long-term incentives for future efforts since the value of the options is directly dependent on the market valuation of the Corporation, and (3) to retain individuals as the options typically vest over time. When determining whether and how many new option grants will be made, the Compensation Committee takes into account the amount and terms of outstanding options.

Chief Executive Officer Compensation

The Compensation Committee is charged with annually reviewing and approving corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluating the Chief Executive Officer's performance in light of those goals and objectives, and fixing and determining the Chief Executive Officer's level of salary and award of bonus and incentive options based on this evaluation. In determining the long-term incentive component of the Chief Executive Officer's compensation, the Compensation Committee considers the Corporation's performance and relative shareholder return, the value of similar incentive awards to chief executive officers at companies in the comparator group, the awards given to the Chief Executive Officer in past years, and such other factors as the Compensation Committee considers relevant. Specifically, the Compensation Committee's review and evaluation includes measurement of the following areas:

- The achievement of corporate objectives, such as partnerships and business development, and consideration of those achievements in light of budgetary constraints;
- The Corporation's financial condition;
- The Corporation's share price and market capitalization; and
- The advancement of it product candidates, both preclinical and clinical.

Salary

During the fiscal year ended December 31, 2005, the Compensation Committee awarded a salary increase for the Chief Executive Officer effective June 1, 2005 from US$425,000 to US$475,000 that had been deferred at Dr. Peters' request until completion of the GSK development and license agreement. Dr. Peters' current annual salary is US$486,875. Based on the 17 comparator companies indicated above, Dr. Peters' base salary is at the high end of the range but his total cash compensation is close to the average total cash compensation paid to the chief executive officers of comparable companies.

Annual Bonus

The employment contract with the Chief Executive Officer provides that subject to the satisfactory achievement of agreed upon goals, the Chief Executive Officer may receive an annual bonus and additional stock options as determined in the sole discretion of Board The Compensation Committee developed a set of guidelines for the awarding of bonuses as part of their development of the 2005 objectives, which included emphasis on the completion of a partnership deal, financing the Corporation's operations, appreciation of the share price and market capitalization, advancement of the drug products through specified development milestones and other discretionary considerations. The following were the major considerations in these objectives:

- The achievement of the GSK development and license agreement;
- The achievement of financing for the Corporation, including an investment by GSK;
- The absence of share price appreciation;
- The absence of market capitalization appreciation; and
- The significant advances in both the preclinical and clinical drug development pipelines in 2005.

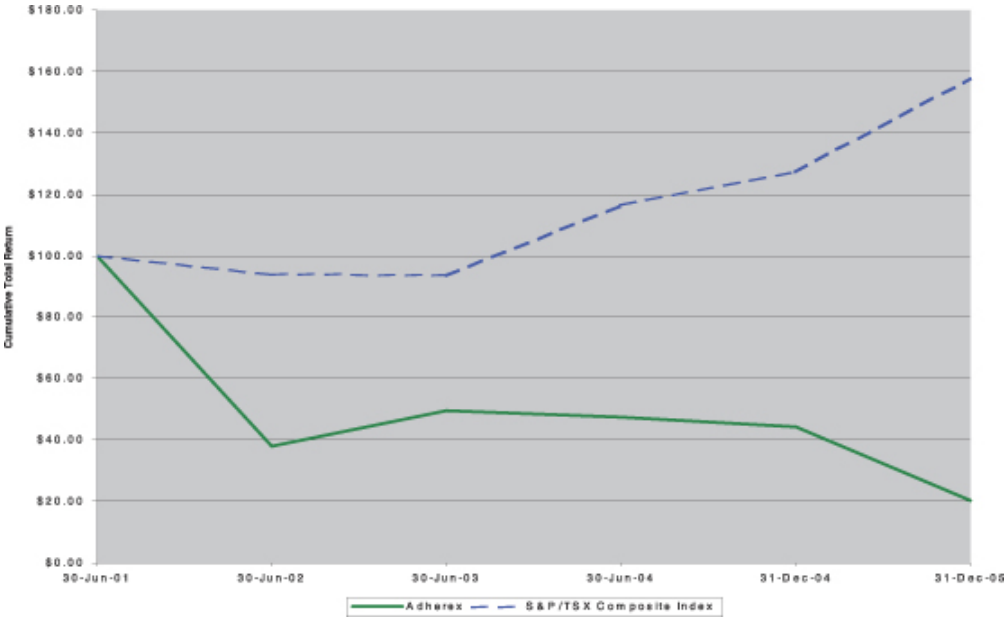
Notwithstanding the absence of share price and market capitalization appreciation and the delay in the initiation of certain planned clinical trials, several major corporate goals were achieved and in recognition of Dr. Peters' contributions in 2005, the Compensation Committee awarded Dr. Peters a bonus of US$60,000.

Options

Over the course of 2005, Adherex made grants of an aggregate of 813,601 options to purchase Common Shares to Dr. Peters. Options to purchase 441,601 Common Shares related to the Financing Grant Provision described above under "**Termination of Employment, Change in Responsibilities and Employment Contracts**" and options to purchase 192,000 Common Shares related to options that were approved for grant but deferred as part of Dr. Peters' 2004 year-end performance review. The remainder, or options to purchase 180,000 Common Shares, were granted with respect to his performance, achievements and leadership in 2005. Adherex thus placed a significant portion of his total compensation package at risk to provide appropriate long-term incentive as the option grants deliver a return only if Adherex's common stock appreciates over the term of the options.

Performance Graph

The following graph compares the percentage change, from June 30, 2001 to December 31, 2005, in the cumulative total shareholder return for $100 invested in Common Shares with the cumulative total return of the S&P/TSX Composite Index.



Compensation of Directors

During the fiscal year ended December 31, 2005, Adherex's non-executive directors, as a group, were paid an aggregate of US$27,500 in cash fees. In addition, during this period, the non-executive directors were granted options to purchase an aggregate of 266,605 Common Shares at an weighted average exercise price of US$1.19 per share. These amounts include additional fees and options granted to each of Mr. Hession, Dr. Porter and Dr. Kufe for their roles as Lead Independent Director, Chairs of the various Board committees, and Scientific and Clinical Advisory Board Chair. Director cash fees ranged from US$4,000 to US$6,000 per director. During the year ended December 31, 2005, directors who were also employees received no compensation for serving on the Board. Each non-executive director is paid US$2,000 for each Board meeting attended in person, US$500 for regular teleconference meetings (Level I), US$750 for extended teleconference meetings (Level II) and US$1,000 for extended and complex meetings (Level III). These various categories reflect the fact that the Board conducts a substantial portion of its work by teleconference, with some of the teleconferences being extended in time commitment and complexity. The Level III category is generally intended to be reserved for extended teleconference activities, such as retreats, in excess of two and one half hours. Directors who are also employees will receive no compensation for serving on the Board for the year ending December 31, 2006.

Stock Option Plan

The Amended and Restated Stock Option Plan was adopted to develop the interest and incentive of eligible employees, directors and other service providers of the Corporation in the Corporation's growth and development by giving eligible Participants (as defined below) an opportunity to purchase Common Shares on a favorable basis, thereby advancing the interests of the Corporation, enhancing the value of the Common Shares for the benefit of all Shareholders and increasing the ability of the Corporation to attract and retain skilled and motivated individuals in the service of the Corporation. The total number of Common Shares that may be currently issued by the Corporation under the Stock Option Plan is 5,600,000, representing approximately 13% of the currently issued and outstanding Common Shares. As of March 24, 2006, options for an aggregate of 4,546,547 Common Shares have been granted and remain issued and outstanding under the Stock Option Plan, representing

approximately 10.7% of the currently issued and outstanding Common Shares, and options for 36,600 Common Shares have been exercised under the Stock Option Plan, representing 0.09% of the currently issued and outstanding Common Shares. These numbers do not include options for 700,000 Common Shares, representing approximately 1.6% of the currently issued and outstanding Common Shares, which were specifically approved by the Corporation's shareholders on December 16, 2003 and granted to Dr. Peters outside of the Stock Option Plan. Although granted outside of the Stock Option Plan, these options were granted with an exercise price equal to the market price of the Common Shares on the date of grant, a term of seven (7) years from the date of grant, vesting as to one third immediately upon granting, another third on the next day following the one year anniversary of the date of grant, and the last third on the next day following the two year anniversary of the date of grant, and otherwise had terms similar to options granted by the Corporation pursuant to the Stock Option Plan.

Within the above aggregate limit of 5,600,000 Common Shares, the Stock Option Plan contains no limits on the number or percentage of such options that may be granted to insiders of the Corporation or to any one person. On December 16, 2003, the shareholders of the Corporation authorized the Corporation to delete from the Stock Option Plan a restriction that the number of Common Shares reserved for issuance pursuant to options to any one person must not exceed 5% of the Corporation's issued and outstanding Common Shares. The Board subsequently removed this restriction from the Stock Option Plan on March 18, 2005 following amendments to the TSX Company Manual on January 1, 2005, which basically provided that TSX-listed issuers were no longer subject to the 5% limitation.

The Board has the right, in its sole discretion, to alter, amend or discontinue the Stock Option Plan from time to time and at any time. However, no such amendment or discontinuation may alter or impair the rights or increase the obligations under the Stock Option Plan of Participants without the consent of the Participants. Further, any amendment to the Stock Option Plan is subject to prior regulatory approval and in some circumstances, the approval of Shareholders.

Participation in the Stock Option Plan shall be limited to directors, employees and service providers who are designated from time to time by the Compensation Committee (each, a "Participant"). Subject to the terms of the Stock Option Plan, the Compensation Committee determines the Participants designated to participate in the Stock Option Plan, the number of Common Shares such Participant is entitled to purchase and the price at which the Common Shares may be purchased and the applicable vesting period. The option price at which the Common Shares may be purchased under the Stock Option Plan is based upon the fair market value of the Common Shares of the Corporation at the time of grant.

Options granted under the Stock Option Plan must be exercised within a period of seven (7) years from the date of grant, failing which the Participant's right to purchase such Common Shares lapses. Unless otherwise determined by the Compensation Committee and specifically set forth in the stock option agreement executed by the Participant, options vest and may be exercised by the Participant as to one-third on each of the first, second and third anniversaries of the date of grant. The Compensation Committee may, however, in its sole discretion by written notice to any Participant, accelerate the vesting of all or any of the options of a Participant such that the options become immediately fully vested. The Participant's rights under the options granted under the Stock Option Plan are not assignable or transferable by the Participant and may not be subject to any other alienation, sale, pledge or encumbrance by such Participant during the Participant's lifetime, and therefore the options are exercisable during the Participant's lifetime only by the Participant. The Corporation does not currently have any arrangements in place for financial assistance to facilitate the purchase of securities by Participants under the Stock Option Plan.

A Participant's right to exercise options ceases following any of the following events (each of which, a "Participant Termination Date"): (i) if an employee, such Participant's employment with the Corporation or any of its subsidiaries is terminated for any reason, (ii) if a director, such Participant director cease to be a director on the Board for any reason, or (iii) if a service provider, such Participant service provider ceases to provide services

to the Corporation. In such case, the Participant, or the Participant's legal representative, as the case may be, may only exercise such options that are then vested any time prior to the earlier of: (x) the original expiry date of such option, or (y) within 30 days of the Participant Termination Date, or if specifically approved by the Board, such later date which may not be more than three (3) years following the Participant Termination Date.

Directors' and Officers' Liability Insurance

Adherex has liability insurance for its directors and officers. The aggregate annual premium for that insurance is approximately US$180,000, no part of which is payable by the directors and officers of the Corporation. The insurance coverage under the policy for each loss is limited to an aggregate of US$10,000,000 for each policy year. The policy provides for a US$150,000 deductible for any securities claim made by the Corporation and for any other claim made by the Corporation and there shall be no deductible for any claim made by a director or officer.

Indebtedness of Directors and Executive Officers

No individual, who is or was a director, executive officer or employee of Adherex, nor any proposed nominee for election as a director of Adherex, nor any associate of any one of them:

(i) is or, at any time since the beginning of Adherex's most recent completed financial period, has been indebted to Adherex or any of its subsidiaries; or

(ii) was indebted to another entity, which indebtedness is, or was at any time during Adherex's most recent completed financial period, the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by Adherex or any of its subsidiaries.

Interest of Informed Persons in Material Transactions

In accordance with the *Canada Business Corporations Act* (CBCA), directors who have a material interest in any person who is a party to a material contract or a proposed material contract with Adherex are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract.

On July 20, 2005, Adherex completed a private placement offering of 6,078,627 units for gross proceeds of US$8.5 million in connection with a development and license agreement with GSK, which invested US$3 million as a part of the financing. The units were issued at a purchase price of US$1.40 per unit. Each unit consisted of one common share of Adherex and 0.30 of a common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share of Adherex at an exercise price of US$1.75 per share for a period of three years. HBM BioVentures (Cayman) Ltd., Centennial Towers, 3rd Floor, 2454 West Bay Road, Grand Cayman, Cayman Islands, a holder of 13.1% of Adherex's issued and outstanding Common Shares, purchased 1,071,429 units as part of the offering.

To the knowledge of Adherex, other than disclosed above, no informed person or proposed nominee for election as a director of Adherex and no associate or affiliate of the foregoing persons has or has had any material interest, direct or indirect, in any transaction since the commencement of Adherex's last completed financial period or in any proposed transaction which has materially affected or would materially affect Adherex or any of its subsidiaries.

REPORT ON CORPORATE GOVERNANCE

Adherex believes that good corporate governance is important to ensure that Adherex is managed for the long-term benefit of its shareholders. In connection with Adherex's commitment to comply with the standards of applicable securities legislation, Adherex has continued to review its corporate governance practices and policies and has compared them to developing practices and regulation in Canada and the United States. In

particular, Adherex has considered the developing rules and guidelines for corporate governance practices and policies, and related disclosures, promulgated by the Canadian Securities Administrators, the U.S. Securities and Exchange Commission and the American Stock Exchange, as well as the Sarbanes-Oxley Act of 2002. During the past year, there have been several changes to the corporate governance and corporate governance disclosure requirements applicable to the Corporation. Specifically, the Canadian Securities Administrators introduced in final form National Instrument 58-101 – Disclosure of Corporate Governance Practices (the "National Instrument") and National Policy 58-201 – Corporate Governance Guidelines (the "National Policy"), both of which came into force on June 30, 2005 and effectively replaced the Corporate Governance Guidelines of the TSX. Also, amendments were made to Multilateral Instrument 52-110 – Audit Committees (the "Multilateral Instrument").

In February 2004, Adherex's Board adopted a Mandate of the Board of Directors, Corporate Governance Guidelines and a Code of Business Conduct and Ethics applicable to all officers, directors and employees of Adherex. The Board also (i) restated the charter of the Audit Committee, (ii) established a separate Governance Committee and adopted a written charter for the committee, (iii) restated the charter of the Compensation Committee, (iv) established a Nominating Committee and adopted a written charter for the committee, and (v) appointed a Lead Independent Director, currently Mr. Raymond Hession. Each of the various committee charters and other corporate governance documents are regularly reviewed and updated. You can access Adherex's current committee charters, Mandate of the Board of Directors, Corporate Governance Guidelines and Code of Business Conduct and Ethics in the corporate governance section of Adherex's website at www.adherex.com.

Set out below is a description of certain corporate governance practices of the Corporation, as required by the National Instrument.

Board of Directors

The National Policy recommends that boards of directors of reporting issuers be composed of a majority of independent directors. With five (5) of the current seven (7) directors considered "independent," the Board is composed of a majority of independent directors. Of the seven (7) candidates proposed for election as directors at the Meeting, five (5) qualify as "independent." The five (5) independent directors are: Mr. Hession and Drs. Kufe, Mermelstein, Morand and Porter. Two (2) have material relationships with the Corporation and are therefore not independent. Dr. Peters, Chief Executive Officer of the Corporation and Chairman of the Board, and Dr. Norris, President and Chief Operating Officer of the Corporation, are considered to have a material relationship with the Corporation by virtue of their executive officer positions. Adherex is of the view that the composition of its Board reflects a diversity of background and experience that are important for effective corporate governance.

During the financial year ended December 31, 2005, the Board did not hold any meetings in the absence of directors who are not "independent," however, certain Committees did conduct executive sessions during meetings where all participants were independent directors. In order to facilitate open and candid discussion among its independent directors, the Corporate Governance Guidelines provide that independent directors should meet at least annually without the presence of management or non-independent directors, that the Lead Independent Director is authorized to call additional meetings of the independent directors and that the Lead Independent Director is authorized to act as the presiding director at such meeting and to develop the agenda for such meetings. In addition, each Board member is free to suggest the inclusion of items on any Board or Committee meeting agenda and suggest pre-meeting materials to either the Chair of the Board or the Lead Independent Director. At any meeting of the Board, each Board member is also free to raise subjects that are not on the agenda for that meeting. Furthermore, each Board committee and the Lead Independent Director, on behalf of the independent directors as a group, shall have the authority to hire legal, accounting, financial or other advisors as they may deem necessary in their best judgment, without the need to obtain the prior approval of any officer of the Corporation. The Chief Financial Officer of the Corporation will arrange for payment of the invoices of any such third party.

Directors' Attendance

For the fiscal period ended December 31, 2005, the Board met on ten occasions, the Audit Committee met on four occasions, the Compensation Committee met on five occasions, the Governance Committee met once and the Nominating Committee held no meetings. The Board was comprised of Mr. Hession and Drs. Kufe, Mermelstein, Morand, Norris, Peters and Porter and each director served for the entire period. Mr. Karmanos, who resigned as a director of the Corporation on July 15, 2005, attended no Board or committee meetings in the fiscal period ended December 31, 2005.

The following table sets forth the attendance of directors at meetings of the Board, the Audit Committee, the Compensation Committee and the Governance Committee.

Director	Attendance at Board Meetings	Committees	Attendance at Committee Meetings
William P. Peters	10/10	—	—
Raymond Hession	8/10	Audit Committee Compensation Committee Governance Committee	3/4 3/5 1/1
Donald W. Kufe	10/10	Compensation Committee	5/5
Fred H. Mermelstein	9/10	Governance Committee	1/1
Peter Morand	10/10	Audit Committee Governance Committee	4/4 1/1
Robin J. Norris	10/10	—	—
Arthur T. Porter	7/10	Audit Committee Compensation Committee	3/4 5/5

The Board expects management to be responsible for the day-to-day operations of and to implement the approved strategic business plan within the context of authorized budgets and corporate policies and procedures. Management is expected to report regularly to the Board in a comprehensive, accurate, and timely fashion on Adherex's business and affairs.

Lead Independent Director

Dr. Peters, Adherex's Chairman of the Board, is the Corporation's Chief Executive Officer and therefore not "independent." Adherex's Corporate Governance Guidelines require that the Board designate an independent director to act in a lead capacity to perform certain functions, as Lead Independent Director. The Lead Independent Director shall be elected annually by the independent directors. Mr. Hession is the current Lead Independent Director. The Lead Independent Director's authority and responsibilities include:

- consulting with the Chairman of the Board on an appropriate schedule for Board meetings, seeking to ensure that the independent directors can perform their duties responsibly;
- providing the Chairman of the Board with input into agendas for Board meetings;
- advising the Chairman of the Board as to the quality, quantity and timeliness of the flow of information from management that is necessary for the independent directors to perform their duties responsibly, with the understanding that the independent directors will receive any information requested on their behalf by the Lead Independent Director;
- calling, and acting as the presiding director at, meetings of the independent directors, and developing the agenda for such meetings;
- acting as principal liaison between the independent directors, the Chairman of the Board and the Chief Executive Officer on sensitive issues;

- providing input to the Compensation Committee regarding the Chief Executive Officer's performance and meeting, along with the Compensation Committee, with the Chief Executive Officer to discuss the Board's evaluation of his or her performance; and
- any other responsibilities as may be determined from time to time by the Board.

Mandate of the Board of Directors

The Board has the overall responsibility for the strategic planning and general management of Adherex's business and affairs. In fulfilling its responsibilities, the Board is responsible for, among other things:

- adoption of a strategic plan for Adherex;
- approval of the annual operating and capital expenditure budgets;
- identification of the principal risks of Adherex's business and ensuring the implementation of the appropriate systems to manage these risks;
- succession planning for Adherex, including appointing and monitoring senior management;
- adoption of a communications policy for Adherex;
- approval of acquisitions, dispositions, investments and financings, which exceed certain prescribed limits;
- integrity of Adherex's internal control and management information systems; and
- development of clear position descriptions for directors, including the Chair of the Board, the Lead Independent Director and the Chair of each Board committee; and, together with the CEO, a clear position description for the CEO.

The Board discharges its responsibilities directly and through committees that have specific areas of responsibility. The frequency of Board meetings and the nature of items discussed during the meetings depend on the opportunities or risks that Adherex faces. The Board, directly and through its committees, has adopted a process whereby it assesses the risk factors that must be identified and managed to ensure Adherex's long-term viability.

The Board mandate generally describes the Board's expectation of management and provides a list of specific matters for which management must obtain Board approval prior to implementation. The Board mandate also provides that the Board annually establish performance objectives for the CEO, which responsibility has been delegated to the Compensation Committee. In addition, the Board receives regular updates from management concerning the Corporation's progress toward achieving corporate goals. The Board has also delegated to the Compensation Committee responsibility for evaluating the CEO's compensation, which evaluation includes review of the CEO's performance against annual performance objectives for the year and input from the Lead Independent Director as well as other directors.

The Board Mandate is attached as Exhibit "A" to this Circular.

Position Descriptions

The Board Mandate and the Nominating Committee Charter provide that the Board, with recommendations from the Nominating Committee, is responsible for the development of clear position descriptions for directors, including the Chair of the Board, the Lead Independent Director and the chair of each board committee; and, together with the Chief Executive Officer, a clear position description for the Chief Executive Officer, which includes delineating management's responsibilities. To date, formal written position descriptions have not been finalized, however, the roles and responsibilities of the Chair and Lead Independent Director are delineated in the

Corporate Governance Guidelines. The roles and responsibilities of the Chief Executive Officer are generally delineated in his employment agreement and in the Board Mandate under the heading “Expectations of Management.”

Ethical Business Conduct

In February 2004, Adherex’s Board adopted a Mandate of the Board of Directors, Corporate Governance Guidelines and a Code of Business Conduct and Ethics (the “Code”) applicable to all officers, directors and employees of Adherex. You can access the Code in the corporate governance section of Adherex’s website at www.adherex.com and the Code has been filed on and is accessible through SEDAR at www.sedar.com. Adherex is committed to adhering to applicable legal requirements and maintaining the highest standards of conduct and integrity. The Code is intended to promote those goals in conjunction with the Corporation’s Insider Trading Policy, Disclosure Policy and Audit Committee Complaint Procedures. The Code sets out the legal and ethical standards of conduct for personnel of Adherex and addresses topics such as: reporting obligations and procedures; honest and ethical conduct and conflicts of interest; compliance with applicable laws and Corporation policies and procedures; confidentiality of corporate information; use of corporate assets and opportunities; public disclosure and books and records; and non-retaliation. The Board is not aware of any conduct of a director or officer that constitutes a departure from the Code and, as a result, since the beginning of Adherex’s fiscal year ended December 31, 2005, there have been no material change reports filed that pertain to such a departure.

The Code provides that the Governance Committee shall monitor and periodically evaluate compliance with the Code and its application to the Corporation’s business. In addition, the Code sets out the procedures adopted by the Audit Committee for the receipt, retention and treatment of complaints and concerns regarding accounting, internal accounting control, or auditing matters. In each case, the Code provides that the Corporation will not discipline, discriminate against or retaliate against any employee who reports a complaint or concern in good faith, whether or not the information is ultimately proven to be correct, or who cooperates in any investigation or inquiry thereof.

In order to ensure independent judgment in considering transactions or agreements in which a director or officer has a material interest, the Code contains a process that must be followed regarding the disclosure, consultation and approval of transactions involving potential conflicts of interest. As a first step, officers and directors must disclose such matters to the Chief Executive Officer and to the Chair or any other disinterested member of the Governance Committee charged with reviewing conflicts of interest. The Board has adopted rules for what activities constitute conflicts of interest and potential conflicts of interest, as well as procedures for determining whether a relationship or transaction constitutes a conflict of interest, the current versions of which are attached as appendices to the Code. Following disclosure, any officer or director must avoid or terminate any activity that involves an actual or reasonably apparent conflict of interest unless it is determined at the appropriate level that the activity is not a conflict of interest or is otherwise not harmful to the Corporation or improper. Disinterested members of the Governance Committee shall make any such determination.

In accordance with the CBCA, directors who have a material interest in any person who is a party to a material contract or a proposed material contract with us are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, no director, director nominee or officer may enter into any transaction or relationship that is disclosable by such person or the Corporation pursuant to the CBCA or by the Corporation pursuant to U.S. Securities and Exchange Commission (“SEC”) Form 20-F, Item 7-B (Related Party Transactions) without the prior approval of the disinterested members of the Nominating (where appropriate) and Governance Committees, and no such person may directly or indirectly approve, or represent the Corporation or the other party in arranging, the terms of any transaction between the Corporation and a party with which he/she has any relationship of a type that is disclosable by such person or the Corporation pursuant to the CBCA or by the Corporation pursuant to SEC Form 20-F, Item 7-B (Related Party Transactions). All transactions between the Corporation and a party with which a director, officer or employee has such a relationship shall be on an arm’s-length basis.

Orientation and Continuing Education

Responsibility for the oversight of orientation for new directors and continuing education programs for all directors with respect to the Corporation's business and financial matters, corporate governance and other appropriate subjects is assigned to the Governance Committee under its charter. In this regard, the Governance Committee's duties include ensuring the adequacy of the orientation and education program for new members of the Board. All current members have been members of the Board since the implementation of the Governance Committee charter and the National Instrument, and thus, to date, no new director orientation has been formally carried out by the Board.

The Governance Committee is also responsible for arranging continuing education for directors in order to ensure that directors maintain the skill and knowledge necessary to meet their obligations as directors. Given the Corporation's limited resources, to date, no external continuing education programs have been sponsored by the Corporation but members of the Board are free to attend such programs as they determine necessary and in the Corporation's best interest. The Corporation also provides directors with the opportunity to meet with senior management of the Corporation, including the Chief Financial Officer and the General Counsel, as well as external advisors, at any time and such personnel and advisers are regularly invited to present at Board meetings or in connection with bi-annual Board retreats to provide updates in legal, accounting, governance and other business developments. Many meetings are held at the Corporation's premises, allowing directors the opportunity to gain additional insight into the Corporation's operations. In addition, analyst reports and other information relating to the Corporation's business and the industry in which it operates are presented at Board meetings and strategy sessions and industry-related articles of interest are distributed to Board members from time to time. Pursuant to each Committee charter, directors are permitted to obtain advice and assistance from internal or external advisors, including for the purposes of continuing education and developments relevant to board responsibilities.

Nomination of Directors

The Nominating Committee of the Board is charged with nominating activities, including determining desired Board skills and attributes for directors; conducting appropriate and necessary evaluations of the backgrounds and qualifications of possible director candidates; and recommending director nominees for approval by the Board or the Shareholders.

The Nominating Committee currently is composed entirely of independent directors: Dr. Kufe (Chair), Dr. Mermelstein and Dr. Porter. The Nominating Committee held no meetings in the fiscal period ending December 31, 2005.

The Nominating Committee will not rely on a fixed set of qualifications for director nominees. The Nominating Committee's primary mandate with respect to director nominees is to create a Board with a broad range of skills and attributes that will be aligned with Adherex's strategic needs. The Nominating Committee is authorized to retain advisors and consultants and compensate them for their services.

Compensation

The Board is responsible for establishing director and executive officer compensation and reviews such compensation at least as often as annually. The Board believes that directors should be fairly compensated for undertaking the responsibilities associated with serving as a director. At the same time, director compensation should be consistent with market practices generally. The Board delegates to the Compensation Committee responsibility for periodically assessing market practices for director and executive officer compensation. In addition, the Nominating Committee evaluates director compensation in the context of evaluating director recruitment and retention.

The Compensation Committee operates under a written charter adopted by the Board. The Compensation Committee is currently composed entirely of independent directors: Dr. Porter (Chair), Mr. Hession and Dr. Kufe. The Compensation Committee held five meetings in the fiscal period ending December 31, 2005.

In addition to director compensation, the Compensation Committee of the Board determines the compensation to be paid to Adherex's executive officers and periodically reviews Adherex's compensation structure to ensure that Adherex continues to attract and retain qualified and experienced individuals to Adherex's management team and motivate these individuals to perform to the best of their ability and in Adherex's best interests. Among other things, the Compensation Committee considers compensation levels of comparable positions in similarly sized organizations in the biotechnology industry. The Compensation Committee also administers Adherex's Stock Option Plan and approves new stock option grants.

Other Board Committees

The Board has created audit, compensation, nominating and governance committees to ensure that the Board functions independently of management. It is also customary practice for directors (i) to regularly receive detailed information describing Adherex's performance, and (ii) when necessary, to speak directly with management regarding additional information required on particular matters of interest. Moreover, directors have access to information independent of management through Adherex's external auditors.

Audit Committee

On behalf of the Board, the Audit Committee of the Board retains, oversees and evaluates Adherex's independent auditors, reviews the financial reports and other financial information provided by Adherex, including audited financial statements, and discusses the adequacy of disclosure with management and the auditors. The Audit Committee also reviews the performance of the independent auditors in the annual audit and in assignments unrelated to the audit, assesses the independence of the auditors, and reviews their fees. The Audit Committee is also responsible for reviewing Adherex's internal controls over financial reporting and disclosure.

The Audit Committee operates under a written charter adopted by the Board. The Multilateral Instrument requires certain disclosures be cross-referenced with respect to the Audit Committee when soliciting proxies from Shareholders for the purpose of electing directors. The Corporation is relying on the exemption found in Part 7 of the Multilateral Instrument applicable to U.S. Listed Issuers but Shareholders can refer to Item 16C of Part II of the Corporation's Annual Report on Form 20-F for the fiscal period ended December 31, 2005 for related disclosures. The Audit Committee met four times during the fiscal period ending December 31, 2005. The Audit Committee is currently composed entirely of independent directors, each of whom the Board has determined is "financially literate" for purposes of the Multilateral Instrument Mr. Hession (Chair), Dr. Morand and Dr. Porter.

Governance Committee

The Governance Committee of the Board develops, recommends and oversees the effectiveness of Adherex's corporate governance guidelines. In addition, the Governance Committee oversees the orientation and education of directors and the process of evaluating the Board and its committees.

The Governance Committee is currently composed entirely of independent directors: Mr. Hession (Chair), Dr. Mermelstein, and Dr. Morand. The Governance Committee held one meeting in the fiscal period ending December 31, 2005.

Assessments

Under its written charter, the Nominating Committee is responsible for assessing the effectiveness of the Board as a whole and the committees of the Board on an annual basis. The Nominating Committee and the Board as a whole periodically conduct a self-evaluation to determine whether the Board and its committees are functioning effectively. Each director and executive officer is requested to complete, on an annual basis, a written evaluation with respect to, among other things: (i) the performance of the CEO and the executive officers; (ii) the performance and effectiveness of the Board and its committees; and (iii) the contributions of the directors to the Board and its committees. The results of the evaluations are summarized and presented to the full Board. The Nominating Committee and the Board from time to time discuss what actions, if any, could improve Board and committee performance.

Retention of Outside Advisors

Adherex's Corporate Governance Guidelines provide that the Board, each Board committee and the Lead Independent Director, on behalf of the independent directors as a group, shall have the authority to hire legal, accounting, financial or other advisors as they may deem necessary in their best judgment, without the need to obtain the prior approval of any officer of the Corporation. The Corporation will arrange for payment of the invoices of any such third party.

SHAREHOLDER PROPOSALS FOR NEXT YEAR'S ANNUAL MEETING

The CBCA permits certain eligible shareholders of the Corporation to submit shareholder proposals to the Corporation, which proposals may be included in a management proxy circular relating to an annual meeting of shareholders. The final date by which the Corporation must receive shareholder proposals for the annual meeting of shareholders of the Corporation to be held in 2007 is December 22, 2006.

ADDITIONAL INFORMATION

Financial information for the financial year ended December 31, 2005 is provided in the Corporation's consolidated financial statements and management's discussion and analysis ("MD&A") which are included in the Annual Report. Securityholders who wish to be added to the mailing list for the annual and interim financial statements and MD&A should complete the appropriate sections of the proxy or contact the undersigned at 4620 Creekstone Drive, Suite 200, Durham, NC 27703.

The Corporation's Annual Report on Form 20-F for the fiscal period ended December 31, 2005 (including the consolidated financial statements and MD&A) and other information relating to the Corporation is available on SEDAR at www.sedar.com.

APPROVAL OF THE BOARD OF DIRECTORS

The contents of this Circular and its sending to Shareholders have been approved by the Board of Directors.

DATED at Durham, NC this 24th day of March 2006.

BY ORDER OF THE BOARD OF DIRECTORS

D. Scott Murray
Vice President, General Counsel and Corporate Secretary

Exhibit "A"

ADHEREX TECHNOLOGIES INC.

Mandate of the Board of Directors

A. Responsibilities

The Board of Directors (the "Board") of Adherex Technologies Inc. (the "Company") is responsible for the stewardship of the Company. All directors shall act honestly and in good faith with a view to the best interests of the Company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Board retains plenary authority and power to do all lawful acts and things as are not by law or otherwise directed or required to be exercised or done by the shareholders of the Company or in some other manner. In carrying out its responsibilities, the Board of Directors (or the committees of the Board of Directors duly constituted by the Board of Directors to the extent such delegation is permitted by law and is specifically made by the Board of Directors) shall have the following specific responsibilities:

1. the adoption of a corporate strategic plan that includes the periodic review and approval of business plans, which take into account, among other things, the opportunities and risks of the business;
2. the identification of the principal risks of the Company's business and ensuring the implementation of appropriate systems to manage these risks;
3. the adoption of processes for succession planning, the periodic review of succession plans for key members of senior management, including the Chief Executive Officer (the "CEO"), and the appointment and training of, and monitoring the performance and compensation of senior management, including officers of the Company;
4. the adoption of a communications policy and the periodic review of such policy;
5. the establishment of adequate systems of internal controls and management information systems;
6. the adoption of corporate governance guidelines or principles applicable to the Company, including with respect to: (i) the size and composition of the Board; (ii) the orientation of new directors; (iii) the provision of continuing education to directors; (iv) the compensation and tenure of directors; (v) the periodic assessment (at least annually) of the performance of the Board, its committees and directors, this Mandate, the Charter for each committee of the Board; and (vi) the position description(s) applicable to each individual director, as well as the competencies and skills each individual director is expected to bring to the Board;
7. the oversight of the maintenance by management of practices and processes to ensure compliance with applicable laws and appropriate ethical standards, including the adoption by management of corporate policies and procedures and the adoption of a written code of business conduct and ethics applicable to directors, officers and employees of the Company containing standards that are reasonably designed to deter wrongdoing;
8. to the extent feasible, satisfying itself as to the integrity of the CEO and other senior officers and that the CEO and other senior officers create a culture of integrity throughout the Company;
9. the submission of matters or questions requiring the approval of shareholders to the shareholders for approval;
10. the approval of the submission to the shareholders of any amendment to the articles of the Company or the approval of any adoption, amendment or repeal of any bylaws of the Company;
11. the recommendation of candidates for election or appointment to the Board of Directors, including the review of nominations recommended by shareholders;

12. the approval of the annual objectives of the Company and the Chief Executive Officer, and the assessment of the performance of the Company and the Chief Executive Officer against the approved objectives;
13. the approval of an annual operating budget for the Company and its subsidiaries on a consolidated basis;
14. the authorization of the issuance of securities of the Company as required in accordance with applicable laws;
15. the declaration of dividends on shares of the Company or the approval of the purchase, redemption or other acquisition of shares issued by the Company as required in accordance with applicable laws;
16. the oversight of the reliability and integrity of accounting principles and practices followed by management, financial statements and other financial reporting, and disclosure practices followed by management;
17. the oversight of the qualifications and independence of the independent auditors of the Company and the approval of the terms of their audit and non-audit service engagements as required in accordance with applicable laws and the requirements of any stock exchanges on which the Company lists its securities and of securities regulatory authorities, as adopted or in force or amended from time to time, and the assessment of the performance of the independent auditors, the filling of a vacancy in the office of the independent auditor between shareholders' meetings, and the recommendation of the annual appointment or, if appropriate, the removal, of the independent auditors of the Company to the shareholders of the Company for their approval in accordance with applicable laws;
18. the approval of the annual audited consolidated financial statements of the Company and, as required in accordance with applicable laws, the approval of the quarterly unaudited consolidated financial statements of the Company and overview of the accounting principles and practices followed by management;
19. the approval of prospectuses, annual information forms, annual reports on Form 20-F, 40-F or 10-K or other applicable form, as the case may be, and proxy circulars and proxy statements sent to shareholders of the Company and the review of managements' discussion and analyses of financial condition and results of operations, and other material disclosure documents as determined by the Board of Directors from time to time;
20. the establishment and periodic review of the Company's measures for receiving feedback from security holders;
21. the development of clear position descriptions for directors, including the Chair of the Board, a "Lead Independent Director" and the chair of each board committee; and, together with the CEO, a clear position description for the CEO, which includes delineating management's responsibilities;
22. the oversight of the management of environmental risks and practices, charitable activities and other social responsibility matters; and
23. to the extent not otherwise referred to above, the review and approval of all proposed transactions and matters described below under the heading "B. Decisions Requiring Prior Approval of the Board"

and, where applicable, in accordance with the requirements of the *Canada Business Corporations Act*, the stock exchanges on which the Company lists its securities and securities regulatory authorities, as adopted or in force or amended from time to time.

In discharging its duties and responsibilities, the Board of Directors is expected to be fully diligent in its oversight to avoid fraud or abuse. Accordingly, the Board may conduct such examinations, investigations or inquiries, and engage such special legal, accounting or other advisors, at the expense of the Company, at such time or times and on such terms and conditions as the Board of Directors considers appropriate.

B. Decisions Requiring Prior Approval of the Board

In addition to such other approvals as required by applicable law or the stock exchanges on which the Company lists its securities and securities regulatory authorities, the Board (or the committees of the Board duly constituted by the Board to the extent such delegation is permitted by law and is specifically made by the Board of Directors) shall review and approve:

1. the strategic plan, financial plans and operating budget of the Company on at least an annual basis;
2. the quarterly and annual financial statements of the Company;
3. all material capital expenditures not part of the approved operating budget, all mergers and acquisitions, and all material investments and dispositions of the Company;
4. all material borrowings and banking arrangements of the Company;
5. all financing by the Company including the issuance of debt, equity and derivative instruments; for greater certainty, this includes the approval of all off-balance sheet financings by the Company or by special purpose entities or affiliates;
6. the purchase and redemption of securities;
7. any changes to the articles or by-laws of the Company;
8. the hiring and, if necessary, the termination of the Chief Executive Officer;
9. the compensation paid to senior management and directors, including the issuance of stock options and non–arms length consulting arrangements;
10. any other material matters outside the ordinary course of the Company's business including all major strategic and policy decisions; and
11. any other matter specified by the Board as requiring its approval.

C. Expectations of Management.

The CEO, through the Senior management, is responsible for the day-to-day operations of the Company and for providing the Board, directly or through the Chair of the Board, the appropriate committee or the Lead Independent Director, with timely, complete and accurate information on such operations. The Board expects management to propose and, after Board approval, implement the Company's strategic plan and to be accountable for the Company's financial and competitive performance. The Board expects the Company's resources to be managed in a manner consistent with enhancing the value of the Company and with consideration for ethics and corporate social responsibility.

The Board may request that certain members of senior management attend all or any portion of a Board or committee meeting and may schedule presentations by managers who can provide additional insight based on their personal involvement in the matter or their particular expertise. Each director shall have complete access to any member of senior management. The Chief Financial Officer and the General Counsel of the Company shall each have access to meet separately with the Audit Committee and Governance Committee respectively, and the Lead Independent Director.

The Board may reasonably rely on the information provided to them by the Company's senior management personnel and outside advisors and auditors.

D. Measures for Receiving Shareholder Feedback

The Company has developed a Disclosure Policy to facilitate consistent disclosure practices aimed at informative, timely and broad dissemination of material information to the market in compliance with applicable

securities laws and the rules and policies of any exchange on which the Company's securities are listed. The Disclosure Policy Committee established under the Disclosure Policy is responsible for overseeing and monitoring communications with, and responses to inquiries from, both institutional and individual investors and the financial community consistent with the objectives of the Company's Disclosure Policy.

Commencing in fiscal 2005, the Company intends to solicit questions and comments from shareholders by way of comments cards that will be mailed to shareholders in connection with the Company's annual meetings. The comments received will be reviewed by the Disclosure Policy Committee and those requiring a response will be answered individually. Any member of the Disclosure Policy Committee may provide copies or summaries of such comments or other communications from shareholders to the Directors, as he or she considers appropriate.

Company spokespersons as appointed by the Disclosure Policy Committee from time to time are available to shareholders by telephone, fax and e-mail and the Company maintains up-to-date material of interest to shareholders and investors on the Company's web site at www.adherex.com.

E. General.

The Board of Directors shall review and assess the adequacy of the mandate of the Board on an annual basis.

Nothing in this Mandate is intended, or may be construed, to impose on any member of the Board a standard of care or diligence that is in any way more onerous or extensive than the standard required by law.