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

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED December 31, 2005**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD**

COMMISSION FILE NUMBER: 001-32295

ADHEREX TECHNOLOGIES INC.
(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant's name into English)

Canada
(Jurisdiction of incorporation or organization)

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

Securities registered or to be registered to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Shares	**The American Stock Exchange**

Securities registered or to be registered to Section 12(g) of the Act.
None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.
42,628,933

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and larger accelerated filer" in Rule 12b-2 of the Securities Exchange Act. (check one):

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☒

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act). Yes ☐ No ☒

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BASIS OF PRESENTATION

The year covered by this Annual Report for the period ended December 31, 2005 represents the first full year since we changed our year end to December 31 from June 30. Prior to this filing, our most recent Annual Report on Form 20-F was filed on March 31, 2005 and covered the six-month fiscal transition 2004 period ended December 31, 2004. In this report, we may refer to the 12-month period ended December 31, 2005 as "Fiscal 2005"; the six-month period ended December 31, 2004 as the "six-month fiscal transition 2004"; the 12-month period ended June 30, 2004 as "Fiscal 2004"; the 12-month period ended June 30, 2003 as "Fiscal 2003" and the 12-month period ended June 30, 2002 as "Fiscal 2002".

Unless otherwise indicated, all references in this Annual Report to the "Company," "Adherex," "we," "us," "our" or similar terms refer to Adherex Technologies Inc., together with its subsidiaries.

We prepare our consolidated financial statements in accordance with generally accepted accounting principles ("GAAP") in Canada. This Annual Report on Form 20-F contains a reconciliation to generally accepted accounting principles in the United States ("U.S.").

As the majority of our operations are now denominated in U.S. dollars, effective January 1, 2005, our functional currency is the U.S. dollar. Concurrent with the change in functional currency, the Company elected to change our reporting currency to the U.S. dollar, therefore, when we refer to "dollars," or "$," we refer to U.S. dollars, the legal currency of the United States. Unless otherwise indicated, all amounts are in U.S. dollars.

When we refer to our common stock or common shares in this document, we are referring to the Common Shares of the Company.

The following words and logos are trademarks of the Company and may be registered in Canada, the United States and certain other jurisdictions: ADHEREX™ and EXHERIN™. All other product names referred to in this document are the property of their respective owners.

TECHNICAL GLOSSARY

In this Annual Report, unless the context otherwise requires, the following words and phrases have the meanings set forth below:

ADH-1 (Exherin™)	A small peptide molecule that selectively targets the adhesion of certain cells possessing the N-cadherin protein.
Angiolytic	Any drug or agent that is capable of disrupting or breaking up established blood vessels.
Anti-angiogenic	Any drug or agent that is capable of inhibiting the growth of new blood vessels.
Anti-tumor activity	Measurable evidence that a drug is affecting the growth, counteracting or preventing the formation of malignant tumors.
Apoptosis	One mechanism of causing cell death, also known as programmed cell death, and a potential mechanism for anti-tumor activity.
Cadherins	A family of proteins generally located at the surface of cells that bind identical molecules on neighboring cells resulting in the process known as cell adhesion.
Cadherin Antagonist	A substance that inhibits the binding or other functions of cadherin molecules.
Cancer	A heterogeneous group of diseases characterized by the uncontrolled or aberrant growth of cells. In addition to the uncontrolled growth of tumor cells, these cells are able to invade and colonize other sites in the body and thus by definition, these tumors are malignant.
Cell Adhesion	The physiological process whereby cells adhere to one another to form tissues or other aggregates, also called cell-to-cell adhesion.
Chemoenhancers	Agents that enhance the effectiveness and tumor killing properties of chemotherapeutic agents.
Chemoprotectants	Agents that protect against the side effects of chemotherapies.
Chemotherapy	Treatment of cancer with chemical agents.

Clinical Trial Application (CTA)	A regulatory application required by Health Canada before a clinical trial in humans can proceed.
Dihydropyrimidine dehydrogenase (DPD)	The rate limiting enzyme involved in the catabolism of pyrimidines like thymidine and uracil, and is the main enzyme involved in the degradation of structurally-related compounds like 5-Fluorouracil (5-FU).
Eniluracil	An oral dihydropyrimidine dehydrogenase (DPD) inhibitor, previously under development by GlaxoSmithKline for oncology indications in Phase III studies and now in-licensed to Adherex.
5-flurouracil (5-FU)	5-FU is part of a group of chemotherapy drugs known as the anti- metabolites. Anti- metabolites are similar to normal body molecules, but they are slightly different in structure. These differences mean that anti-metabolites stop cells working properly instead of helping them. Anti-metabolites often stop cells making and repairing DNA. Cancer cells need to make and repair DNA in order to grow and multiply. Anti-metabolites also stop normal cells working properly, which results in side effects.
Food and Drug Administration (FDA)	The U.S. agency responsible for regulation of pharmaceutical, biotechnology and food products.
Good Laboratory Practices (GLP)	A set of principles that provide a framework within which laboratory studies are planned, performed, monitored, recorded, reported and archived. GLP help assure regulatory authorities that data submitted are a true reflection of the results obtained during a particular study and can, therefore, be relied upon when making risk/safety assessments.
Good Manufacturing Practices (GMP)	That part of quality assurance designed to ensure that medicinal products are consistently produced and controlled to the quality standards appropriate to their intended use and as required by their marketing authorization or product specification. GMP relates to both production and quality control.
Health Canada's Therapeutic Products Directorate (TPD)	The Government of Canada agency charged with overseeing the development and marketing of drugs in Canada.
Investigational New Drug Submission (IND)	Documentation filed with U.S. government agencies responsible for evaluating and licensing pharmaceutical drugs. This documentation is necessary for the initiation of clinical trials.
Molecularly targeted therapy	Substances that kill cancer cells by targeting key molecules involved in cancer cell metabolism, growth or survival.
Mesna	2-mercaptoethanesulfonic acid sodium salt administered with ifosfamide and cyclophosphamide. Mesna, a chemoenhancer, is a compound that has displayed anti-cancer activity by reducing the resistance of cancer cells to certain chemotherapeutic agents.
NAC	N-Acteylcysteine, an agent currently used to break up, destroy or dissolve mucin or mucus and to treat acetaminophen poisoning. NAC is being developed by Adherex as a chemoprotectant.
New Drug Application (NDA)	A submission made to the FDA for marketing authorization.
Necrosis	One mechanism of causing cell death through injury or disease.
New Drug Submission (NDS)	A submission made to the TPD for marketing authorization.
Oncology	The study and treatment of cancer and tumors.
Orphan Drug Designation	A category created by the FDA for medications used to treat diseases that occur rarely (less than 200,000 cases annually in the United States) or where there is no hope for recovery of development costs. Orphan Drug Designation gives the recipient specific financial incentives. Orphan Drug Designations are controlled by the FDA's Office of Orphan Products Development.

Ototoxicity	Toxicity to the auditory systems that results in hearing loss or vestibular damage.
Patent Cooperation Treaty (PCT)	An international patent treaty, of which Canada and the United States are signatories, whereby a single international patent application can be filed in the applicant's or inventor's home country for possible protection of intellectual property in over 100 PCT member countries.
Pharmacodynamics	The effect a drug has on its target.
Pharmacokinetics	The way a drug is distributed, metabolized and excreted from the body after dosing.
Phase I Clinical Trials	Clinical trials to evaluate a drug's safety, tolerability and pharmacokinetics that typically take approximately one year to complete and are usually conducted on a small number of healthy human subjects.
Phase Ib/II Clinical Trials	Clinical trials that combine aspects of both Phase I and Phase II clinical trials and which are designed to estimate the effectiveness of a new treatment in a select subgroup of patients, which display a specific tumor phenotype, with particular attention to safety and efficacy at differing dosage levels. As used in this document, it refers to clinical trials conducted in patients with a specific tumor molecular phenotype in which the relative effectiveness of the drug at several dosage levels will be evaluated. The trial design combines aspects of classical Phase I trials in that several dosages and schedules will be evaluated and aspects of classical Phase II trials in which larger numbers of a particular patient and tumor phenotype are studied to provide an estimate of the magnitude of effectiveness of a treatment.
Phase II Clinical Trials	Clinical trials that are conducted to provide an estimate of the magnitude of effectiveness of a treatment, and typically take one to two years to complete and are carried out on a relatively small number of patients (generally between 14 and 50 patients) in a specific setting of targeted disease or medical condition.
Phase III Clinical Trials	Randomized clinical trials that compare two or more treatment programs that typically take two to four, or even more years, to complete and involve tests on a large population of patients suffering from the targeted condition or disease. These studies are generally required to establish the drug's clinical safety and effectiveness.
Platinum-based	Containing platinum, which is important for the pharmacological action of the drug.
Redox Clamping	Maintaining oxygen levels (reduction-oxidation potential) within a certain range.
Redox State	The state of oxygen levels of cells (the oxygen reduction potential).
STS	Sodium thiosulfate, an antidote agent currently used in cyanide poisoning in conjunction with sodium nitrite. STS is being developed by Adherex as a chemoprotectant.
Thrombocytopenia	A reduction of the important blood cells called platelets that can be caused by various anti-cancer therapies. Platelets are important in maintaining normal blood clotting potential.
Toxicology	The scientific determination of the relationship between the quantity of a substance and adverse side effects.
Tumor	An abnormal growth of tissue whether benign or malignant.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected consolidated financial data

The following tables set forth the selected consolidated financial data of the Company for the twelve-month period ended December 31, 2005, the six-month fiscal transition 2004 and the twelve-month periods ended June 30, 2004, 2003, 2002 and 2001. We derived the data from our consolidated financial statements, which were audited by our independent auditor. You should read this data in conjunction with Item 5, "Operating and Financial Review and Prospects" and our consolidated financial statements and related notes thereto included in this Annual Report.

Our consolidated financial statements included in this Annual Report under Item 18, "Financial Statements" have been prepared in accordance with GAAP in Canada. A reconciliation to United States generally accepted accounting principles ("U.S. GAAP") is included in Note 20 to our audited consolidated financial statements. All amounts are expressed in U.S. dollars.

Exchange Rates

We publish our consolidated financial statements in U.S. dollars. Unless otherwise indicated, all dollar amounts herein are stated in U.S. dollars. The following table illustrates the rate of exchange for Canadian dollars per U.S. $1.00 in effect at the end of the following periods and the average rate of exchange based on the noon buying rate in New York City for cable transfers in Canadian dollars as certified for custom purposes by the Federal Reserve Bank of New York. The yearly averages of the noon buying rates for Canadian dollars were calculated using the average noon buying rate on the last business day of each month during the relevant period.

	Average rate (CAD$ per U.S.$1.00)
For the twelve-month period ended December 31:	
December 31, 2005	1.2115
For the six-month period ended December 31, 2004:	
December 31, 2004	1.2646
For the twelve-month period ended June 30:	
June 30, 2004	1.3440
June 30, 2003	1.5106
June 30, 2002	1.5686
June 30, 2001	1.5195
June 30, 2000	1.4735

Monthly Exchange Rates

	High	Low
	(CAD$ per U.S. $1.00)	
September 2005	1.1880	1.1607
October 2005	1.1887	1.1657
November 2005	1.1960	1.1656
December 2005	1.1736	1.1507
January 2006	1.1726	1.1436
February 2006	1.1577	1.1379

Selected Canadian GAAP Consolidated Statements of Operations
U.S. Dollars
(In thousands, except per share data)

	Year Ended December 31, 2005	Six Months Ended December 31, 2004	Years Ended June 30, 2004	2003	2002	2001
Revenue	$ —	$ —	$ —	$ —	$ —	$ —
Research and development expense	12,441	3,443	3,561	2,745	2,762	1,637
General and administration expense	3,182	2,727	3,481	1,996	1,145	1,040
Amortization of acquired intellectual property rights	2,723	1,234	2,323	1,265	—	—
Total operating expenses	(18,346)	(7,404)	(9,365)	(6,006)	(3,907)	(2,677)
Loss on impairment of intellectual property	(3,539)	—	—	—	—	—
Settlement of Cadherin Biomedical Inc. litigation	—	(1,283)	—	—	—	—
Other income	—	—	—	—	98	—
Interest income	361	171	162	72	213	194
Interest expense	(11)	—	(331)	(11)	—	—
Loss before income taxes	(21,535)	(8,516)	(9,534)	(5,945)	(3,596)	(2,483)
Recovery of future income taxes	2,290	451	849	462	—	—
Net loss	$ (19,245)	$ (8,065)	$ (8,685)	$ (5,483)	$(3,596)	$(2,483)
Net loss per share of common stock, basic and diluted	$ (0.49)	$ (0.22)	$ (0.36)	$ (0.42)	$ (0.45)	$ (0.49)
Weighted average number of shares of common stock outstanding, basic and diluted	39,276	35,989	24,233	12,920	8,033	5,098

Selected U.S. GAAP Consolidated Statements of Operations
U.S. Dollars
(In thousands, except per share data)

	Year Ended December 31, 2005	Six Months Ended December 31, 2004	Years Ended June 30, 2004	2003	2002
Revenue	$ —	$ —	$ —	$ —	$ —
Research and development expense	11,678	3,448	3,691	2,992	2,908
In-process research and development expense	—	—	—	13,094	—
General and administration	2,543	2,290	3,486	2,023	1,282
Total operating expenses	(14,221)	(5,738)	(7,177)	(18,109)	(4,190)
Settlement of Cadherin Biomedical Inc. litigation	—	(1,283)	—	—	—
Other income	—	—	—	—	98
Interest income	361	171	162	72	213
Interest expense	(11)	—	—	(5)	—
Loss before income taxes	(13,871)	(6,850)	(7,015)	(18,042)	(3,879)
Recovery of current income taxes	—	166	130	247	147
Net loss in accordance with U.S. GAAP	$ (13,871)	$ (6,684)	$ (6,885)	$(17,795)	$(3,732)
Net loss per share of common stock, basic and diluted	$ (0.35)	$ (0.19)	$ (0.28)	$ (1.38)	$ (0.47)
Weighted average number of shares of common stock outstanding, basic and diluted	39,276	35,989	24,233	12,920	8,033

Selected Canadian GAAP Consolidated Balance Sheet Data
U.S. Dollars
(In thousands)

	December 31, 2005	December 31, 2004	June 30, 2004	June 30, 2003	June 30, 2002
Cash, cash equivalents and short-term investments	$ 13,144	$ 17,548	$ 20,701	$ 2,360	$ 5,765
Working capital	10,735	16,133	20,091	2,231	5,482
Acquired intellectual property rights	14,154	20,415	19,496	21,583	—
Total assets	28,445	38,989	41,509	25,502	6,807
Future income taxes	5,174	7,463	7,126	7,889	—
Liability component of convertible notes	—	—	—	1,174	—
Common stock	41,268	34,324	33,565	16,688	15,096
Contributed surplus	25,338	22,587	20,258	11,147	—
Accumulated deficit	(52,399)	(33,154)	(23,403)	(14,718)	(9,077)
Shareholders' equity	$ 20,057	$ 29,607	$ 32,824	$ 15,217	$ 6,072
Number of shares of common stock outstanding	42,629	36,535	35,891	16,069	8,033

Selected U.S. GAAP Consolidated Balance Sheet Data
U.S. Dollars
(In thousands)

The following consolidated balance sheet items, as presented under U.S. GAAP:

	December 31, 2005	December 31, 2004	June 30, 2004	June 30, 2003	June 30, 2002
Cash, cash equivalents and short-term investments	$ 13,144	$ 17,548	$ 20,701	$ 2,360	$ 5,765
Working capital	10,735	16,132	20,091	2,231	5,482
Total assets	14,291	18,573	22,014	3,919	6,807
Convertible notes	—	—	—	—	—
Common stock	41,306	34,362	33,603	16,726	15,134
Additional paid in-capital	23,110	21,760	21,117	11,147	—
Accumulated deficit	(54,582)	(40,711)	(34,117)	(27,244)	(9,292)
Shareholders' equity	$ 11,077	$ 16,654	$ 20,454	$ 699	$ 6,072
Number of shares of common stock outstanding	42,629	36,535	35,891	16,069	8,033

B. Capitalization and indebtedness

Not applicable.

C. Reasons for the offer and use of proceeds

Not applicable.

D. Risk factors

An investment in our common stock should be considered highly speculative. In addition to the other information in this Annual Report, you should carefully consider the following factors when evaluating the Company and our business.

Risks Related to Our Business

We have a history of significant losses and have had no revenues to date through the sale of products. If we do not generate significant revenues, we will not achieve profitability.

To date, we have been engaged primarily in research and development activities. We have had no revenues to date through the sale of products, and we do not expect to have significant revenues until we either are able to sell our product candidates after obtaining applicable regulatory approvals or current or future collaborations provide us with funding, such as licensing fees, milestone payments, royalties, upfront payments or otherwise. We have incurred significant operating losses every year since our inception on September 3, 1996. We experienced net losses of approximately $19.2 million for the fiscal year ended December 31, 2005. As of December 31, 2005, we had an accumulated deficit of approximately $52.4 million. We anticipate incurring substantial additional losses over the next several years due to the need to expend substantial amounts on our continuing clinical trials, anticipated research and development activities and general and administrative expenses in support of the Company, among other factors. We have not commercially introduced any product and our product candidates are in varying early stages of development and testing. Our ability to attain profitability will depend upon our ability to develop products that are safe, effective and commercially viable, to obtain regulatory approval for the manufacture and sale of our product candidates and to license or otherwise market our product candidates successfully. We may never achieve or sustain profitability on an ongoing basis.

Our product candidates are at an early stage of development. Due to the long, expensive and unpredictable drug development process, we might not ever successfully develop and commercialize any of our product candidates.

In order to achieve profitable operations, we, alone or in collaboration with others, must successfully develop, manufacture, introduce and market our product candidates. The time necessary to achieve market success for any individual product is long and uncertain. Our product candidates and research programs are in the early stage of clinical development and require significant, time-consuming and costly research and development, testing and regulatory clearances. In developing our product candidates, we are subject to risks of failure that are inherent in the development of therapeutic products and procedures based on innovative technologies. For example, our product candidates might be ineffective or toxic, or otherwise might fail to receive necessary regulatory clearances. The results of preclinical and initial clinical trials are not necessarily predictive of future results. Our product candidates might not be economical to manufacture or market or might not achieve market acceptance. Also third parties might hold proprietary rights that preclude us from marketing our product candidates or others might market superior or equivalent products.

We must conduct human clinical trials to assess our product candidates. If these trials are delayed or are unsuccessful, our development costs will significantly increase and our business prospects will suffer.

Before obtaining regulatory approvals for the commercial sale of our product candidates, we must demonstrate, through preclinical studies with animals and clinical trials with humans, that our product candidates are safe and effective for use in each target indication. To date, we have performed only limited clinical trials, and we have only done so with some of our product candidates. Much of our testing has been conducted on animals or on human cells in a laboratory dish, and the benefits of treatment seen in animals may not ultimately be obtained in human clinical trials. As a result, we will need to perform significant additional research and development and extensive preclinical and clinical testing prior to any application for commercial use. We may suffer significant setbacks in clinical trials, and the trials may demonstrate our product candidates to be unsafe or ineffective. We may also encounter problems in our clinical trials that will cause us to delay, suspend or terminate those clinical trials, which would increase our development costs and harm our financial results and commercial prospects. Identifying and qualifying patients to participate in clinical trials of our potential products is critically important to our success. The timing of our clinical trials depends on the speed at which we can recruit patients to participate in testing our product candidates. We have experienced delays in some of our clinical trials, including significant delays with the trial planned with STS as discussed in more detail below under the heading "The Children's Oncology Group may not conduct clinical trials with STS as planned," and we may experience significant delays in the future. If patients are unwilling to participate in our trials because of competitive clinical trials for similar patient populations, perceived risk or any other reason, the timeline for recruiting patients, conducting trials and obtaining regulatory approval of potential products will be delayed. Other factors that may result in significant delays include obtaining regulatory or ethics review board approvals for proposed trials, reaching agreement on acceptable terms with prospective clinical trial sites, and obtaining sufficient quantities of drug for use in the clinical trials. Such delays could result in termination of the clinical trials altogether.

We will need additional capital to fund our operations, which may not be available at all or on acceptable terms. If we do not have or cannot raise additional funding when needed, we will not be able to develop and commercialize our product candidates successfully and we may not be able to continue operations.

We will need substantial additional funding to develop and potentially commercialize our product candidates. Since inception in 1996 and through December 31, 2005, we utilized approximately $39.0 million in cash, cash equivalents and short-term investments to fund our activities. We have not generated any revenues to date through the sale of products and we expect to incur substantial expenses in connection with preclinical studies, clinical trials, regulatory review, manufacturing and potentially sales and marketing. Under our current operating plan and forecast, we believe that our existing cash, cash equivalents and capital are sufficient to fund our anticipated operations until December 31, 2006. However, due to anticipated expenses to further advance the development of our product candidates, we might raise additional funds during 2006. In addition, any one of the following factors, among others, could cause us to require additional funds sooner or otherwise cause our cash requirements in the future to materially increase:

- results of research and development activities;
- progress or lack of progress of our preclinical studies or clinical trials;
- our drug substance requirements to support clinical programs;
- our ability to maintain or establish corporate collaborations and licensing arrangements;
- changes in the focus, direction, or costs of our research and development programs;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims;
- competitive and technological advances;

- the potential need to develop, acquire or license new technologies and products;
- our business development activities;
- current and new regulatory requirements imposed by regulatory authorities, including the Sarbanes Oxley Act of 2002;
- the timing and outcome of the regulatory review process; or
- commercialization activities, if any.

Accordingly, we cannot guarantee that our current cash, cash equivalents and capital will be sufficient to fund operations for the period described above. In any event, after that period, we will require substantial additional funds to develop our product candidates and to otherwise meet our business objectives. The capital markets are unpredictable but if we are able to consummate a financing, the amount raised may not be sufficient to meet our future needs, and even if adequate funds are raised, stockholders may experience significant dilution. Additional financing may not be available on acceptable terms when needed, if at all. If adequate funds are not available on acceptable terms when needed, we would be required to delay, scale back or eliminate one or more of our product development programs or to seek to obtain funds through arrangements with collaborative partners (or others), which may include a requirement that we relinquish rights to technologies or products that we would not otherwise relinquish. Any failure to obtain funding when and in the amounts needed would have a material adverse effect on our financial position and results of operations.

If we do not maintain current or enter into new collaborations with other companies, we might not successfully develop our product candidates or generate sufficient revenues to expand our business.

We currently have scientific and research collaboration arrangements with academic institutions and other collaborators, including a development and license agreement for eniluracil and ADH-1 with GSK as discussed in more detail below under the heading “GSK might not exercise any of their options under our license and development agreement with them, which might hinder development of two of our most important drug candidates,” a general collaboration agreement with McGill University for ADH-1 and other related compounds, an exclusive worldwide license from OHSU for NAC and STS, and an exclusive worldwide license from Rutgers for mesna.

The agreements with McGill, Rutgers and OHSU are terminable by either party in the event of an uncured breach by the other party. We may also terminate our agreement with McGill after September 2006 and our agreements with Rutgers and OHSU at any time upon prior written notice of specified durations to the licensor. Termination of any of our collaborative arrangements could materially adversely affect our business. In addition, our collaborators might not perform as agreed in the future.

In addition to the collaborative arrangements above, we have received approval from the Drug Development Group (DDG) of the U.S. National Cancer Institute’s (“NCI”) Division of Cancer Treatment and Diagnosis for a Level III collaboration for the clinical development of the Company’s lead biotechnology compound, ADH-1. As part of the collaboration, we will be executing a Clinical Trial Agreement with the NCI to support additional preclinical studies of ADH-1 in preparation of future NCI-sponsored clinical trials to further evaluate the anti-cancer and vascular targeting effects of ADH-1 both as a single agent and in combination with other anti-cancer agents in patients with advanced resistant cancers that express the molecular marker, N-cadherin. We also have entered into a standard form screening agreement with the NCI under which the NCI has been screening and testing compounds supplied by us for their anti-cancer properties in various preclinical anti-cancer assays and tumor models. The NCI has no obligation to sponsor clinical trials of ADH-1 or to continue to perform preclinical or screening work for us and may terminate the above agreements at any time, as may we. In the event that we or the NCI terminate the above agreements, we may seek another third party to conduct similar work for us, which may result in increased costs for us.

The success of our business strategy will be dependent on our ability to maintain current and enter into new collaborations with other industry participants that advance the development and clinical testing of, regulatory approval for and commercialization of our product candidates, as well as collaborations that provide us with funding, such as licensing fees, milestone payments, royalties, upfront payments or otherwise. We may not be successful in maintaining current collaborations or establishing any further collaborations, and any collaborations we have or establish may not lead to the successful development of our product candidates.

Since we conduct a significant portion of our early stage research and development through collaborations, our success may depend significantly on the performance of such collaborators, as well as any future collaborators. Any future collaborators might not commit sufficient resources to the research and development or commercialization of our product candidates. Economic or technological advantages of products being developed by others, or other factors could lead our collaborators to pursue other product candidates or technologies in preference to those being developed in collaboration with us. The commercial potential of, development stage of and projected resources required to develop our drug candidates will also affect our ability to maintain current collaborations or establish new collaborators. There is a risk of dispute with respect to ownership of technology developed under any collaboration. Our management of any collaboration will require significant time and effort as well as an effective allocation of resources. We may not be able to simultaneously manage a large number of collaborations.

GSK might not exercise any of their options under our license and development agreement with them, which might hinder development of two of our most important drug candidates.

In July 2005, we entered into a license and development agreement with GSK covering two drugs, eniluracil and ADH-1. The agreement included 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. Under the agreement, GSK retained options to buy back eniluracil at various points in its development. Under the terms of the agreement, should GSK not exercise any options to buy-back its rights relating to eniluracil, we would be free to develop eniluracil alone or with other partners. If we file a New Drug Application ("NDA") with the Food and Drug Administration ("FDA"), the Company may be required to pay 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, we may be required to pay up to an additional $15.0 million to GSK per FDA-approved indication. We do not presently have the financial or human resources internally to complete Phase III trials for either of these product candidates. We therefore intend to seek a licensing or funding partner if GSK should decide not exercise its options to either buy back eniluracil or to license ADH-1. If a partner for these technologies is not found, we may not be able to advance these products. If a partner is found, the financial terms that they propose may not be acceptable to the Company.

The Children's Oncology Group may not conduct clinical trials with STS as planned.

We intend to continue the development of STS as a hearing loss protectant for children undergoing platinum-based chemotherapy by initiating a prospective, randomized clinical trial with the assistance of the Children's Oncology Group ("COG"). We have experienced significant delays in getting the trial fully approved and started at COG. Such delays may prove to be costly for us, both in terms of additional clinical expenses as well as any effect such delays may have on the market price of our stock. We might not be able to commence or complete these planned clinical trials on schedule, or at all.

As we expand the size of our organization, we may experience difficulties in effectively managing our growth, which could adversely impact our business.

Our planned future growth will strain our management, human, operational, financial and other resources. Currently, we have 29 full-time employees. We could add up to 5 additional employees in 2006. In order to manage our future growth effectively, we will have to implement and improve operational, financial, manufacturing and management information systems and to expand, train, manage and motivate our employees. To the extent that we are unable to manage our growth effectively, we may not be able to successfully accomplish our business objectives.

We may expand our business through new acquisitions that could disrupt our business, harm our financial condition and dilute current stockholders' ownership interests in our company.

Our business strategy includes expanding our products and capabilities, and we may seek acquisitions to do so. Acquisitions involve numerous risks, including:

- substantial cash expenditures;
- potentially dilutive issuance of equity securities;
- incurrence of debt and contingent liabilities, some of which may be difficult or impossible to identify at the time of acquisition;
- difficulties in assimilating the operations of the acquired companies;
- diverting our management's attention away from other business concerns;

- risks of entering markets in which we have limited or no direct experience; and
- the potential loss of our key employees or key employees of the acquired companies.

We cannot assure you that any acquisition will result in short-term or long-term benefits to us. We may incorrectly judge the value or worth of an acquired company or business. In addition, our future success would depend in part on our ability to assimilate acquired companies and their personnel effectively. We might not be able to make the combination of our business with that of acquired businesses or companies work or be successful. Furthermore, the development or expansion of our business or any acquired business or companies may require a substantial capital investment by us. We may not have these necessary funds or they might not be available to us on acceptable terms or at all. We may also seek to raise the necessary funds by selling shares of our stock, which could dilute current stockholder's ownership interest in our Company.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to effectively manage our business and successfully develop our product candidates.

Our success depends upon certain key personnel, in particular Dr. William P. Peters, our Chief Executive Officer and Chairman of the Board of Directors, the loss of whose services might significantly delay or prevent the achievement of our scientific or business objectives. We have entered into an employment agreement with Dr. Peters that had an initial term ending on March 12, 2008, which has now been extended by the Board until March 2010. If we terminate Dr. Peters without "cause," or if Dr. Peters terminates his employment for Good Reason or a Change of Control (as such terms are defined in the agreement), we are obligated to pay Dr. Peters severance compensation equal to 24 months salary and certain other benefits. Although we have entered into employment agreements with each of our key personnel, we cannot be certain that any individual will continue in such capacity for any particular period of time. The loss of key personnel, or the inability to hire and retain qualified employees, could negatively affect our ability to manage our business. We do not currently carry key person life insurance.

If our licenses to proprietary technology owned by others are terminated or expire, we may suffer increased development costs and delays, and we may not be able to successfully develop our product candidates.

The development of our drug candidates and the manufacture and sale of any products that we develop will involve the use of processes, products and information, some of the rights to which are owned by others. A number of our product candidates are licensed under agreements with GSK, McGill, Rutgers or OHSU. Although we have obtained licenses or rights with regard to the use of certain processes, products and information, the licenses or rights could be terminated or expire during critical periods and we may not be able to obtain, on favorable terms or at all, licenses or other rights that may be required. Some of these licenses provide for limited periods of exclusivity that may be extended only with the consent of the licensor, which may not be granted.

If we are unable to adequately protect our patents and licenses related to our product candidates, or we infringe upon the intellectual property rights of others, we may not be able to successfully develop and commercialize our product candidates.

The value of our technology will depend in part upon our ability, and that of our collaborators, to obtain patent protection or licenses to patents, maintain trade secret protection and operate without infringing on the rights of third parties. Although we have successfully pursued patent applications in the past, it is possible that:

- some or all of our pending patent applications, or those we have licensed, may not be allowed;
- proprietary products or processes that we develop in the future may not be patentable;
- any issued patents that we own or license may not provide us with any competitive advantages or may be successfully challenged by third parties; or
- the patents of others may have an adverse effect on our ability to do business.

It is not possible for us to be certain that we are the original and first creator of inventions encompassed by our pending patent applications or that we were the first to file patent applications for any such inventions. Further, any of our patents, once issued, may be declared by a court to be invalid or unenforceable.

We may be required to obtain licenses under patents or other proprietary rights of third parties but the extent to which we may wish or need to do so is unknown. Any such licenses may not be available on terms acceptable to us or at all. If such licenses are obtained, it is likely they would be royalty bearing, which would reduce our income. If licenses cannot be obtained on an economical basis, we could suffer delays in market introduction of planned products or their introduction could be prevented, in some cases after the expenditure of substantial funds. If we do not obtain such licenses, we may have to design around patents of third parties, potentially causing increased costs and delays in product development and introduction or precluding us from developing, manufacturing, or selling our planned products. Alternatively, we could find that the development, manufacture or sale of products requiring such licenses could be foreclosed.

Litigation may also be necessary to enforce or defend patents issued or licensed to us or our collaborators or to determine the scope and validity of a third party's proprietary rights. We could incur substantial costs if litigation is required to defend ourselves in patent suits brought by third parties, if we participate in patent suits brought against or initiated by our collaborators, or if we initiate such suits. We may not prevail in any such action. An adverse outcome in litigation or an interference to determine priority or other proceeding in a court or patent office could subject us to significant liabilities, require disputed rights to be licensed from other parties or require us or our collaborators to cease using certain technology or products. Any of these events would likely have a material adverse effect on our business, financial condition and results of operations.

Much of our technological know-how that is not patentable may constitute trade secrets. Therefore, we require our employees, consultants, advisors and collaborators to enter into confidentiality agreements. However, such agreements may not provide for meaningful protection of our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure of information. In addition, others may independently develop or obtain similar technology and may be able to market competing products and obtain regulatory approval through a showing of equivalency to our product that has obtained regulatory approvals, without being required to undertake the same lengthy and expensive clinical studies that we would have already completed.

The vulnerability to off-label use or sale of our product candidates that are covered only by "method of use" patents may cause downward pricing pressure on these product candidates if they are ever commercialized and may make it more difficult for us to enter into collaboration or partnering arrangements for the development of these product candidates.

Some of our product candidates, including STS, NAC and mesna, are currently only covered by "method of use" patents, which cover the use of certain compounds to treat specific conditions, and not by "composition of matter" patents, which would cover the chemical composition of the compound. Method of use patents provide less protection than composition of matter patents because of the possibility of off-label uses if other companies develop or market the compound for other uses. If another company markets a drug that we expect to market under the protection of a method of use patent, physicians may prescribe the other company's drug for use in the indication for which we obtain approval and have a patent, even if the other company's drug is not approved for such an indication. Off-label use and sales could exert pricing pressure on any products we develop covered only by method of use patents. Also, it may be more difficult to find a collaborator to license or support the development of our product candidates that are only covered by method of use patents.

If our third party manufacturers breach or terminate their agreements with us, or if we are unable to secure arrangements with third party manufacturers on acceptable terms as needed in the future, we may suffer significant delays and additional costs.

We have no experience manufacturing products and do not currently have the resources to manufacture any products that we may develop. We currently have agreements with contract manufacturers for clinical supplies of ADH-1, STS, eniluracil and 5-FU, including drug substance providers and drug product suppliers. Our contract manufacturers might not perform as agreed in the future or may terminate our agreement with them before the end of the required term. Significant additional time and expense would be required to effect a transition to a new contract manufacturer.

We plan to continue to rely on contract manufacturers for the foreseeable future to produce quantities of products and substances necessary for research and development, preclinical trials, human clinical trials and product commercialization, and to perform their obligations in a timely manner and in accordance with applicable government regulations. If we develop any products with commercial potential, we will need to develop the facilities to independently manufacture such products or secure arrangements with third parties to manufacture them. We may not be able to independently develop manufacturing capabilities or obtain favorable terms for the manufacture of our products. While we intend to contract for the commercial manufacture of our product candidates, we may not be able to identify and qualify contractors or obtain favorable contracting terms. We or our contract manufacturers may also fail to meet required manufacturing standards, which could result in delays or failures in product delivery, increased costs, injury or death to patients, product recalls or withdrawals and other problems that could significantly hurt our business. We intend to maintain a second source for back-up commercial manufacturing, wherever feasible. However, if a replacement to our future internal or contract manufacturers were required, the ability to establish second-sourcing or find a replacement manufacturer may be difficult due to the lead times generally required to manufacture drugs and the need for FDA compliance inspections and approvals of any replacement manufacturer, all of which factors could result in production delays and additional commercialization costs. Such lead times would vary based on the situation, but might be 12 months or longer.

We lack the resources necessary to effectively market our product candidates, and we may need to rely on third parties over whom we have little or no control and who may not perform as expected.

To date, we do not have the necessary resources to market our product candidates. If we develop any products with commercial potential, we will either have to develop a marketing capability, including a sales force which is difficult and expensive to implement successfully, or attempt to enter into a collaboration, merger, joint venture, license or other arrangement with third parties to provide a substantial portion of the financial and other resources needed to market such products. We may not be able to do so on acceptable terms, if at all. If we rely extensively on third parties to market our products, the commercial success of such products may be largely outside of our control.

We conduct our business internationally and are subject to laws and regulations of several countries which may affect our ability to access regulatory agencies and may affect the enforceability and value of our licenses.

We have conducted clinical trials in the United States, Canada and Europe and intend to, or may, conduct future clinical trials in these and other jurisdictions. There can be no assurance that any sovereign government will not establish laws or regulations that will be deleterious to our interests. There is no assurance that we, as a Canadian corporation, will continue to have access to the regulatory agencies in any jurisdiction where we might want to conduct clinical trials or obtain regulatory approval, and there can be no assurance that we will be able to enforce our license or patent rights in foreign jurisdictions. Foreign exchange controls may have a material adverse effect on our business and financial condition, since such controls may limit our ability to flow funds into or out of a particular country to meet obligations under licenses, clinical trial agreements or other collaborations

We will likely face foreign currency exchange risks which may expose us to increased costs and decreased revenue.

We may face exposure to adverse movements in foreign currency exchange rates when our product candidates are commercialized, if at all. We expect that any products we may develop would generate international revenues and expenses, denominated in U.S., Canadian and other currencies. In such an event, we will likely face differing tax structures, foreign regulations and restrictions, and general foreign exchange rate volatility. To date, we have not instituted a hedging program against the risks associated with foreign exchange exposure. We may implement hedging techniques in the future, which may not be successful. To date, we have experienced no significant negative consequences resulting from fluctuations in foreign currency exchange rates.

Risks Related to Our Industry

If we are unable to obtain applicable U.S. and/or foreign regulatory approvals, we will be unable to develop and commercialize our drug candidates.

The preclinical studies and clinical trials of our product candidates, as well as the manufacturing, labeling, sale and distribution, export or import, marketing, advertising and promotion of our product candidates are subject to various regulatory frameworks in the United States, Canada and other countries. In the United States, our product candidates are regulated by federal, state and local governmental authorities, including the FDA. In Canada, our product candidates are regulated by federal, provincial and local governmental authorities, including the Therapeutic Products Directorate of Health Canada. Any products that we develop must receive all relevant regulatory approvals and clearances before any marketing, sale or distribution. The regulatory process, which includes extensive preclinical studies and clinical testing to establish product safety and efficacy, can take many years and cost substantial amounts of money. As a result of the length of time, many challenges and costs associated with the drug development process, the historical rate of failures for drug candidates is extremely high. Varying interpretations of the data obtained from studies and tests could delay, limit or prevent regulatory approval or clearance. Changes in regulatory policy could also cause delays or affect regulatory approval. Any regulatory delays may increase our development costs and negatively impact our competitiveness and prospects. It is possible that we may not be able to obtain regulatory approval of any of our drug candidates and any approvals may take longer and cost more to obtain than expected.

Regulatory approvals, if granted, may entail limitations on the uses for which any products we develop may be marketed, limiting the potential sales for any such products. The granting of product approvals can be withdrawn at any time, and manufacturers of approved products are subject to regular reviews, including for compliance with good manufacturing practices (“GMP”). Failure to comply with any applicable regulatory requirement, which may change from time to time, can result in warning letters, fines, sanctions, penalties, recalling or seizing products, suspension of production, or even criminal prosecution.

Future sales of our product candidates may suffer if they fail to achieve market acceptance.

Even if our product candidates are successfully developed and achieve appropriate regulatory approval, they may not enjoy commercial acceptance or success. Product candidates may compete with a number of new and traditional drugs and therapies developed by major pharmaceutical and biotechnology companies. Market acceptance is dependent on product candidates demonstrating clinical efficacy and safety, as well as demonstrating advantages over alternative treatment methods. In addition, market acceptance is influenced by government reimbursement policies and the ability of third parties to pay for such products. Physicians, patients, the medical community or patients may not accept or utilize any products we may develop.

We face a strong competitive environment. Other companies may develop or commercialize more effective or cheaper products, which may reduce or eliminate the demand for our product candidates.

The biotechnology and pharmaceutical industry, and in particular the field of cancer therapeutics where we focus, is very competitive. Many companies and research organizations are engaged in the research, development and testing of new cancer therapies or means of increasing the effectiveness of existing therapies, including, among many others, Abbott Laboratories, Amgen, Antisoma, AstraZeneca, Bayer, Bristol-Myers Squibb, EntreMed, Genentech, Merck & Co., NeoPharm, Novartis, Johnson & Johnson, OXiGENE, Peregrine Pharmaceuticals, Pfizer, Roche and Sanofi-Aventis. Many of these companies have marketed drugs or are developing targeted cancer therapeutics which, depending upon the mechanism of action of such agents, could be competitors.

Many of our existing or potential competitors have substantially greater financial, technical and human resources than we do and may be better equipped to develop, manufacture and market products. In addition, many of these competitors have extensive experience with preclinical testing and human clinical trials and in obtaining regulatory approvals. Also, some of the smaller companies that compete with us have formed collaborative relationships with large, established companies to support the research, development, clinical trials and commercialization of any products that they may develop. To date, our license and development agreement with GSK is the only such collaboration we have, but it does not provide any ongoing funding or direct support for our current clinical programs, but rather milestones and royalties upon the exercise of options by GSK. Academic institutions, government agencies and other public and private research organizations may also conduct research, seek patent protection and establish collaborative arrangements for research, clinical development and marketing of products similar to those we seek to develop. These companies and institutions compete with us in recruiting and retaining qualified scientific and management personnel as well as in acquiring technologies complementary to our projects.

We are likely to face competition in the areas of product efficacy and safety, ease of use and adaptability, as well as pricing, product acceptance, regulatory approvals and intellectual property. Competitors could develop more effective, safer and more affordable products than we do, and they may obtain patent protection or product commercialization before we do or even render our product candidates obsolete. The existence of competitive products, including products or treatments of which we are not aware, or products or treatments that may be developed in the future, may adversely affect the marketability of any products that we may develop.

We may face product liability claims that could require us to defend costly lawsuits or incur substantial liabilities that could adversely impact our financial condition, receipt of regulatory approvals for our product candidates and our results of operation.

The use of our product candidates in clinical trials and for commercial applications, if any, may expose us to liability claims in the event that such product candidates cause injury or disease or result in other adverse effects. These claims could be made by health care institutions, contract laboratories, patients or others using our product candidates. We carry clinical trial insurance with a policy limit of $5.0 million, but the coverage may not be sufficient to protect us from legal expenses and liabilities we might incur. Litigation is very expensive, even if we are successful. In addition, our existing coverage will not be adequate if we further develop products, and future coverage may not be available in sufficient amounts or at reasonable cost. Adverse liability claims may also harm our ability to obtain or maintain regulatory approvals.

We use hazardous material and chemicals in our research and development, and our failure to comply with laws related to hazardous materials could materially harm us.

Our research and development processes involve the controlled use of hazardous materials, such as flammable organic solvents, corrosive acids and corrosive bases. Accordingly, we are subject to federal, state, local and foreign laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. While we believe that safety procedures for handling and disposing of such materials will comply with the standards prescribed by federal, state, local and/or foreign regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, we could be held liable for any damages that result and any such liability could exceed our resources and may not be covered by our general liability insurance, which carries a policy limit of $2.0 million. In addition, we have a $2.0 million umbrella policy. We currently do not carry insurance specifically for hazardous materials claims. We may be required to incur significant costs to comply with environmental laws and regulations, which may change from time to time.

Efforts to reduce product pricing and health care reimbursement and changes to government policies could negatively affect the commercialization of our product candidates.

If any of our product candidates achieves regulatory approval, we may be materially adversely affected by the continuing efforts of governmental and third-party payors to contain or reduce health care costs. For example, if we succeed in bringing one or more products to market, such products may not be considered cost-effective and the availability of consumer reimbursement may not exist or be sufficient to allow the sale of such products on a competitive basis. The constraints on pricing and availability of competitive products may further limit our pricing and reimbursement policies as well as adversely effect market acceptance and commercialization for the products.

In some foreign markets, the pricing or profitability of healthcare products is subject to government control. In recent years, federal, state, provincial and local officials and legislators have proposed or are proposing a variety of price-based reforms to the healthcare systems in the United States and Canada. Some proposals include measures that would limit or eliminate payments from third-party payors to the consumer for certain medical procedures and treatments or allow government control of pharmaceutical pricing. The adoption of any such proposals or reforms could adversely affect the commercial viability of our product candidates.

Any significant changes in the healthcare system in the United States and Canada and abroad would likely have a substantial impact on the manner in which we conduct business and could have a material adverse effect on our ability to raise capital and the viability of product commercialization.

New accounting or regulatory pronouncements may impact our future financial position and results of operations.

There may be new accounting or regulatory pronouncements or rulings, which could have an impact on our future financial position and results of operations. In particular, there have been a number of rule changes and proposed legislative initiatives following recent corporate bankruptcies and accounting scandals. Changing laws, regulations and standards relating to corporate governance and public disclosures can create uncertainty and such uncertainty may lead to increased expenses and exposure to liabilities.

Risks Related to Our Common Stock

We are a passive foreign investment company under U.S. tax law, which has adverse tax consequences for our U.S. shareholders.

We have determined that we are currently a passive foreign investment company, or PFIC, under U.S. tax law and likely will continue to be a PFIC at least until we develop a source of significant operating revenues. As a result, there are adverse tax consequences to U.S. holders of shares of our common stock. A number of mitigating elections may be available to U.S. holders. Absent one of these elections, a U.S. holder whose holding period for our shares includes a period during which we are classified as a PFIC generally will be required to treat certain excess distributions with respect to our shares and gains realized on the disposition of our shares as ordinary income earned ratably over the holder's holding period and will be subject to a special tax and interest charge on amounts treated as earned in the periods in which we are a PFIC. In addition, the holder's shares will not receive a "stepped-up" basis upon a transfer at death. These PFIC tax rules will not apply if a U.S. holder makes an election for the first taxable year of the holder's holding period to be taxed currently on the holder's pro rata share of our ordinary earnings and net capital gain for any year we are a PFIC. Alternatively, a U.S. holder may avoid the special tax and interest charge on excess distributions and gains by making an election to mark the shares to market annually during any period in which we are a PFIC and our shares are treated as marketable shares. If a mark-to-market election is made, amounts included in or deducted from income pursuant to the election and actual gains and losses realized upon disposition generally will be treated as ordinary gains or losses. Whether or not an applicable election is made, if we are classified as a PFIC for the taxable year in which a dividend is paid, or for the preceding taxable year, a dividend paid to a non-corporate U.S. holder will not qualify for the reduced long-term capital gains rates. See Item 10.E., "Taxation—Passive Foreign Investment Company Rules."

The market price of our common stock is highly volatile and could cause the value of your investment to significantly decline.

Historically, the market price of our common stock has been highly volatile and the market for our common stock has from time to time experienced significant price and volume fluctuations, some of which are unrelated to our operating performance. From November 12, 2004 to February 28, 2006, the trading price of our stock has fluctuated from a high closing price of CAD$2.60 per share to a low closing price of CAD$0.88 per share on the Toronto Stock Exchange, and from a high closing price of $2.20 per share to a low closing price of $0.82 per share on the American Stock Exchange. Historically, our common stock has had a low trading volume, and likely will continue to have a low trading volume in the future. This low volume may contribute to the volatility of the market price of our common stock. It is likely that the market price of our common stock will continue to fluctuate significantly in the future.

The market price of our stock may be significantly affected by many factors, including without limitation:

- innovations related to our or our competitors' products;
- actual or potential clinical trial results related to our or our competitors' products;
- our financial results or those of our competitors;
- reports of securities analysts regarding us or our competitors;
- announcements of licensing agreements, joint ventures, collaborations or other strategic alliances that involve our products or those of our competitors;
- developments or disputes concerning our licensed or owned patents or those of our competitors;
- economic and other external factors generally or stock market trends in the pharmaceutical or biotechnology industries specifically;
- developments with respect to the efficacy or safety or our products or those of our competitors; and
- health care reforms and reimbursement policy changes nationally and internationally.

There are a large number of shares of our common stock underlying outstanding warrants and options, and reserved for issuance under our stock option plan, that may be sold in the market, which could depress the market price of our stock and result in substantial dilution to the holders of our common stock.

Sale or issuance of a substantial number of shares of our common stock in the future could cause the market price of our common stock to decline. It may also impair our ability to obtain additional financing. As of February 28, 2006, we had outstanding warrants to purchase approximately 11.1 million shares of our common stock at exercise prices ranging from CAD$2.05 to CAD$3.59 per share, and outstanding warrants to purchase approximately 1.9 million shares of our common stock with an exercise price of $1.75. In addition, as of February 28, 2006, there were approximately 3.7 million shares of common stock issuable upon exercise of stock options granted by us with a weighted average exercise price of CAD$2.39 and approximately 1.6 million with a weighted average exercise price of $1.14. We may also issue further warrants as part of any future financings as well as the currently remaining options under our stock option plan to purchase up to an additional 1.1 million shares of common stock.

If we were to lose our foreign private issuer status, we would likely incur additional expenses associated with compliance with the U.S. securities laws applicable to U.S. domestic issuers.

As a foreign private issuer, we are exempt from certain of the provisions of the U.S. securities laws. For example, the U.S. proxy solicitation rules, Regulation FD and the Section 16 short swing profit rules do not apply to foreign private issuers. However, if we were to lose our status as a foreign private issuer, these regulations would immediately apply and we would also be required to commence reporting on forms required of U.S. companies, such as Forms 10-K, 10-Q and 8-K, rather than the forms currently available to us, such as Forms 20-F and 6-K. In addition, if we were to lose our foreign private issuer status, we would be subject to additional restrictions on offers and sales of securities outside the United States, including in Canada. Compliance with these additional securities laws would likely result in increased expenses. Further, to the extent that we were to offer or sell our securities outside of the United States, we would have to comply with the generally more restrictive Regulation S requirements that apply to U.S. companies, and we would no longer be able to utilize certain of the forms available for registered offerings by Canadian companies in the U.S, which could limit our ability to access the capital markets in the future.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F contains forward-looking statements that involve substantial risks and uncertainties. Words such as “may,” “believe,” “anticipate,” “intend,” “could,” “estimate,” “project,” “plan,” or other similar words are one way to identify forward-looking statements. Forward-looking statements in this Annual Report include, but are not limited to, statements with respect to (i) our anticipated commencement dates, completion dates and results of clinical trials; (ii) goals and anticipated progress in and costs of our clinical and preclinical research and development programs; (iii) our strategies and goals; (iv) our expected results of operations; (v) our anticipated levels of expenditures; (vi) our ability to protect our intellectual property; (vii) the anticipated applications of our drug candidates; (viii) our efforts to pursue collaborations with other companies; (ix) the nature and scope of potential markets for our drug candidates and (x) our anticipated sources and uses of cash, cash equivalents and short-term investments. We include forward-looking statements because we believe that it is important to communicate our expectations to our investors. However, all forward-looking statements are based on management’s current expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described or implied in the forward-looking statements. There are many factors including those discussed above in Item 3.D., “Risk Factors,” that could cause actual results to differ materially from those described or implied in the forward-looking statements. Although we believe the expectations reflected in the forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be attained, and we caution you not to place undue reliance on such statements.

ITEM 4. INFORMATION ON THE COMPANY

A. History and development of the Company

Our legal and commercial name is Adherex Technologies Inc. On September 3, 1996, our predecessor, Adherex Inc., was incorporated under the CBCA to develop and commercialize cell adhesion work that was initiated at McGill. On August 14, 1998, Adherex Technologies Inc. was incorporated under the *Canada Business Corporations Act* (“CBCA”) and on September 11, 1998, it acquired all of the shares of Adherex Inc. On April 30, 2001, Adherex Technologies Inc. amalgamated with its wholly owned subsidiary, Adherex Inc., to form the Company. On December 19, 2003, the Company acquired 50 percent of 2037357 Ontario Inc., an Ontario corporation that performed specific research and development activity for the Company in Ontario. In June 2004, 2037357 Ontario Inc. became a wholly-owned subsidiary of the Company and continued its existence under the CBCA as Adherex Research Corp. On June 29, 2004, the Company amalgamated with Adherex Research Corp. to continue as Adherex Technologies Inc. We have two wholly owned Delaware subsidiaries, Oxiquant, Inc. and Adherex, Inc., and one wholly owned Canadian subsidiary, Cadherin Biomedical Inc. Our registered office address is: Adherex Technologies Inc., c/o LaBarge Weinstein LLP, 515 Legget Drive, Suite 800, Kanata, Ontario K2K 3G4; Telephone: (613) 599-9600; Facsimile: (613) 599- 0018. Our U.S. offices are at 4620 Creekstone Drive, Suite 200, Research Triangle Park, Durham, North Carolina 27703; Telephone: (919) 484-8484; Facsimile: (919) 484-8001.

Important corporate events in the development of our business during the fiscal year ended December 31, 2005 include the following:

- In July 2005, we entered into a license and development agreement with GlaxoSmithKline (GSK) covering two drugs, eniluracil and ADH-1 (Exherin™). The agreement included 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, and provides for maximum potential payments to Adherex of approximately $220 million plus up to double-digit sales royalties.

- In connection with the license and development agreement with GSK, we completed a private placement offering for gross proceeds of $8.5 million, $3.0 million of which was invested by GSK.
- We initiated several clinical trials of ADH-1 as a single agent, including a Phase II trial in Canada and a Phase Ib/II clinical trial in Europe.
- We presented our global development plans for eniluracil, including data that indicates that the dose, dose ratio, and schedule of administering eniluracil and 5-FU are critical to achieving the optimal therapeutic effectiveness of the combination.
- We received IND clearance from the FDA, enabling us to commence U.S.-based clinical trials of eniluracil.
- We received Orphan Drug Designation from the FDA for the use of eniluracil in combination with fluoropyrimidines (including 5-FU) for the treatment of hepatocellular (liver) cancer.
- We 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; one of these patients achieving a rapid and durable partial response, defined as a reduction of at least 50% in tumor size. Subsequently, the Company has reported evidence of anti-tumor activity in two additional patients in its Phase I experience, for a total of five patients.

We have not been involved in any bankruptcy, receivership or similar proceedings. We may consider from time to time potential acquisitions, dispositions, joint ventures, collaborations and other strategic transactions.

For information concerning our capital expenditures and divestitures and further information concerning our methods of financing, see Item 5, “Operating and Financial Review and Prospects.”

B. Business overview

Company Overview

We are a biopharmaceutical company dedicated to the discovery and development of novel cancer therapeutics using both our innovative cadherin-based biotechnology platform and more traditional pharmaceutical development. We have multiple product candidates in the clinical stage of development:

- ADH-1, a molecularly-targeted compound directed against N-cadherin, a protein present on certain tumor cells and the established blood vessels that feed solid tumors. To date, sixty-seven patients have been enrolled in Phase I studies with ADH-1. ADH-1 was shown to be generally well tolerated and demonstrated evidence of anti-tumor activity as a single agent in five patients to date. ADH-1 is currently in Phase II in Canada and Phase Ib/II trials in the U.S. and Europe. In 2006, we plan to seek to optimize the dose and schedule of ADH-1, identify single agent activity in select tumor types and evaluate ADH-1 clinically in combination with other cancer therapies.
- Eniluracil, an irreversible inhibitor of the enzyme dihydropyrimidine dehydrogenase (DPD) that was formerly under development by GSK. Eniluracil is being developed to enhance the therapeutic value and effectiveness of 5-flurouracil (5-FU), one of the most widely-used oncology drugs in the world. In 2006, we expect to complete a series of clinical studies to optimize our proprietary method of administration for the combination of eniluracil and 5-FU, with the goal of returning eniluracil to Phase III trials as early as 2007.
- STS, a chemoprotectant which has been shown in Phase I and Phase II clinical studies conducted by investigators at OHSU to reduce the disabling loss of hearing in patients, both adults and children, treated with platinum-based anticancer agents. We are designing a randomize study with the Children’s Oncology Group (“COG”) to test STS as a hearing protectant from hearing loss due to platinum-based anticancer agents.
- NAC, a bone marrow protectant that is the subject of ongoing Phase I investigation at OHSU under investigator INDs for use as a bone marrow protectant in the context of platinum-based chemotherapy.
- Mesna, a chemoenhancer that has displayed anti-cancer activity in laboratory studies conducted by investigators at Rutgers and in a Phase I clinical study in Argentina by reducing the resistance of cancer cells to certain chemotherapeutic agents.

We also have several preclinical product candidates targeted to enter clinical development over the next several years. However, we can provide no assurance that we will commence or complete these planned clinical trials on schedule, or at all, or that the results and data will be positive or consistent, provide the necessary results to design and conduct pivotal Phase III clinical trials, or support the filing of an NDA or NDS. Failure is common and can occur at any stage of development. 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 licensed.

Our Clinical Product Candidates

ADH-1

ADH-1 is a small peptide molecule which selectively targets N-cadherin present on certain tumor cells and the blood vessels that supply blood to the tumor. Pursuant to a general collaboration agreement, McGill granted us an exclusive worldwide license to certain intellectual property rights relating to ADH-1 and certain uses thereof. N-cadherin is found throughout the body and, like other cadherins, is important in cell-to-cell binding and in maintaining the structural integrity of cells. ADH-1 appears to inhibit the binding of the N-cadherin protein molecules to each other. Within tumors, the N-cadherin protein can be found on the tumor cells themselves and on the blood vessels that supply the tumor. Therefore, N-cadherin is a single target where antagonizing N-cadherin with ADH-1 could have a dual effect; both on the tumor cells themselves and on the tumor blood vessels. In our Phase I studies, radiologic changes consistent with areas of cell death (either by apoptosis or necrosis) have been seen following administration of ADH-1. To date, ADH-1 has not been shown to significantly adversely impact normal healthy cells within the body. Our studies are, however, at an early stage and future study results may vary. Some of our preclinical studies on animal models have demonstrated that within 30 minutes of ADH-1 administration, there is leakage of blood from tumor vessels into the substance of the tumor and a reduction in the tumor blood supply, and either directly or indirectly, anti-tumor activity which leads in some cases to the death of cancer cells.

In ADH-1 Phase I studies, sixty-seven patients have been enrolled to date. Forty-nine patients had tumors that either expressed N-cadherin or whose tumor status was unknown. ADH-1 was shown to be generally well tolerated and displayed anti-tumor activity in five patients with N-cadherin positive or unknown tumors. No anti-tumor activity was noted in patients whose tumors did not express N-cadherin.

The first patient was a 62-year-old woman with N-cadherin positive squamous cell cancer of the esophagus with lung metastases. This patient received 11 doses of ADH-1 and maintained an objective partial response for six-months and did not experience tumor progression for nine months.

The second patient was a 24-year-old woman with N-cadherin positive cancer of the adrenal gland that secreted abnormally high hormone levels. This patient experienced a reduction in blood flow to her tumor 90 minutes following the administration of ADH-1, a drop in the abnormally high hormone levels after one week, and showed evidence of necrosis on MRI scans after six weeks. She subsequently received 31 additional doses of ADH-1 under a Health Canada Special Access Program and experienced a relative normalization in her hormone levels with stable disease for approximately nine months.

The third patient was a 56-year-old man with an unknown primary cancer and lung metastases that showed decreases of 39% and 14% in tumor masses on radiologic scans six weeks following a single dose of ADH-1.

The fourth patient was a 42-year-old man with rapidly progressing N-cadherin positive metastatic colon cancer who experienced seven months of stable disease while receiving ADH-1.

The fifth patient was a 61-year-old woman with chemotherapy-resistant cancer of the fallopian tube who experienced a mixed response following a weekly administration with ADH-1.

ADH-1 is currently in Phase II and Phase Ib/II trials. A Phase II trial ongoing at six sites in Canada is investigating the use of ADH-1 as a single agent in following N-cadherin positive tumor types: liver, lung, esophageal, kidney and adrenocortical. The objective of the Phase II program is to identify the tumor types, if any, most appropriate for future Phase III trials and to estimate the frequency of response in select tumor types. A Phase Ib/II trial ongoing in Europe, with sites in Switzerland and Italy, is assessing the effects of weekly dosing of single agent ADH-1 on tumor size reduction, toxicity, pharmacodynamics and pharmocokinetics in the context of a limited intra-patient dose escalation in up to an aggregate of approximately 40 patients whose tumors are N-cadherin positive, and will selectively use dynamic MRI scanning to attempt to assess the timing, magnitude and effect of ADH-1 on tumor vasculature. A Phase Ib/II trial was initiated at the MD Anderson to explore a daily X 5 (Monday through Friday) dosing schedule. Given recent trends in medical care and schedules for oncology therapies, the Company plans to discontinue this trial and concentrate our resources on weekly administration schedules. We anticipate that the Phase Ib/II and Phase II single agent trials will provide the safety information and estimates of the expected range of therapeutic effectiveness that are a pre-requisite to the design and conduct of prospective randomized pivotal Phase III trials, which are required for submission of an NDA to the FDA in the United States or an NDS in Canada. In addition, as the natural evolution of the development of cancer drugs is to move from single agent trials to combination trials, we plan to expand the ADH-1 development program by evaluating ADH-1 clinically in combination with other cancer therapies, with Phase I trials expected to begin in mid 2006. Based on positive data from our ADH-1 clinical programs, we could potentially initiate single agent Phase III clinical trials as early as 2007.

Eniluracil

Eniluracil, which was previously under development by GlaxoSmithKline (GSK), is being developed by Adherex to enhance the therapeutic value and effectiveness of 5-fluorouracil (5-FU), one of the world's most widely-used oncology agents. 5- FU is a widely used anticancer agent in the U.S., including first line therapy for colorectal, breast, gastric, head and neck, and ovarian cancers and basal cell cancer of the skin. Eniluracil could make 5-FU even better by increasing its effectiveness, reducing its side effects and making it orally available.

Normally, 5-FU is rapidly broken down in the body by an enzyme known as dihydropyrimidine dehydrogenase (DPD). Eniluracil irreversibly inhibits DPD, thereby substantially slowing the breakdown of 5-FU and prolonging exposure of the tumor cells to the drug.

While 5-FU is currently a mainstay of contemporary oncology treatment, it has some therapeutic drawbacks:

- It is given intravenously and often by prolonged, multi-day infusion.
- Its use is typically associated with variable blood and tissue levels. Low levels can reduce its effectiveness and high levels can increase side effects.
- It can cause severe and often dose-limiting side effects. For example, a breakdown product of 5-FU is alpha-fluoro-beta-alanine (F-BAL). This degradation product may be associated with neurotoxicity and "hand-foot" syndrome, which are disabling side effects of 5-FU therapy.
- The best balance of efficacy and side effects is often obtained with long duration (up to 48 hours), multi-day, continuous infusions, which are expensive and are still associated with considerable variability in blood and tissue levels and severe side effects.
- Some tumors are resistant to 5-FU due to elevated DPD levels in the tumor cells. In other cases, the tumor develops resistance to 5-FU as DPD levels rise in the tumor.

When eniluracil is properly used in combination with 5-FU, it may be significantly better than 5-FU alone and may resolve many of the therapeutic drawbacks of 5-FU noted above. For instance, we believe combining eniluracil and 5-FU should have the following benefits:

- 5-FU becomes orally active, eliminating the need for intravenous (IV) administration.
- The blood and tissue levels become more consistent, resulting in improved efficacy.
- The consistent blood and tissue levels may also lead to an improved side effect profile.
- Elimination of F-BAL production improves the side effect profile.

Thus, the use of eniluracil in combination with 5-FU has the potential to make 5-FU more effective, better tolerated and orally available.

There is another important potential benefit of the combination of eniluracil and 5-FU: the combination may expand the range of cancers that respond to 5-FU. Some tumors have inherently high levels of DPD that result in resistance to 5-FU. Eniluracil may eliminate these high levels of DPD activity in the tumor, thereby potentially expanding the use of 5-FU into new cancer indications.

GSK's clinical development program for the combination of 5-FU and eniluracil met with success in early development. However, three Phase III trials failed, and development was stopped. We believe new scientific data obtained subsequent to those Phase III trials may account for the early suboptimal efficacy and provide a basis for enhancing the effectiveness of the combination. This proprietary data forms the basis of a patent application by Adherex, which claims that the combination of eniluracil and 5-FU has the potential to be more effective than 5-FU alone when used in accordance with Adherex's proprietary methods.

To optimize our proprietary method of administration for the combination of eniluracil and 5-FU, we expect to complete a series of initial clinical studies with the intent of returning eniluracil to Phase III trials as early as 2007. The first study, a Phase I dose escalation study in patients with solid tumors, was initiated in January 2006 and is intended to define the maximum tolerated dose of weekly dosing of our proprietary combination of eniluracil and 5-FU. We expect the study to complete in the third quarter of 2006 and then plan to initiate a Phase II trial in breast cancer. A second Proof of Mechanism study will investigate the specific effects of eniluracil on the enzymatic pathways of 5-FU metabolism in patients with colorectal cancer. A Phase I/II clinical trial in liver cancer is expected to begin in the second quarter of 2006 in Asia. Together, these studies are intended to define the optimal dose of eniluracil, the optimal dose ratio and schedule of eniluracil in combination with 5-FU, and the clinical response rate to Adherex's proprietary combination of these two drugs.

In December 2005, we received Orphan Drug Designation in the United States for the use of eniluracil in combination with fluoropyrimidines for the treatment of liver cancer. Fluoropyrimidines include 5-FU and other 5-FU prodrugs.

STS

STS is currently approved by the FDA for use in humans as part of a treatment for cyanide poisoning. We have licensed from OHSU intellectual property rights for the use of STS as a chemoprotectant, and intend to develop STS as a protectant against hearing loss and more specifically, the hearing loss caused by platinum-based anti-cancer agents. Preclinical studies conducted by OHSU and others on a number of agents indicated that STS effectively reduced the incidence of hearing loss caused by platinum-based anti-cancer agents. To support its development, we have or are considering novel formulations and branding strategies, and have received Orphan Drug Designation in the United States for the use of STS in the prevention of platinum-induced ototoxicity in pediatric patients.

Hearing loss among children receiving platinum-based chemotherapy is frequent, often permanent and severely disabling. The incidence of hearing loss in these children depends upon the dose and duration of chemotherapy, and many of these children require lifelong hearing aids. There is currently no established preventive agent for this hearing loss and only expensive, technically difficult and sub-optimal cochlear (inner ear) implants have been shown to provide some relief. In addition, adults undergoing chemotherapy for several common malignancies, including ovarian cancer, testicular cancer, and particularly head and neck cancer and brain cancer, receive intensive platinum-based therapy and may also experience severe, irreversible hearing loss, particularly in the high frequencies.

Investigators at OHSU have conducted Phase I and Phase II studies with STS that have shown STS reduces the hearing loss associated with platinum-based chemotherapy. In one study at OHSU, the need for hearing aids to correct high frequency hearing loss was reduced from about 50% to less than 5%. We expect to continue the development of STS as a hearing loss protectant for children undergoing platinum-based chemotherapy by initiating a prospective, randomized clinical trial with the assistance of the COG.

NAC

We plan to develop NAC as a bone marrow protectant to be used to prevent bone marrow toxicity (low white blood cells, red blood cells, and platelets) caused by certain cancer drugs. These side effects can often limit the use of agents for the treatment of cancer. A severe decrease in platelet count has been reported in some studies to occur in approximately 20% of patients undergoing chemotherapy for certain types of cancer. Platelets are critical in the maintenance of normal blood clotting function and their loss can have a range of consequences from minor manifestations such as bruising to life-threatening hemorrhages. A severe decrease in white blood cells, and specifically a type of white blood cell called a neutrophil, can increase the risk of severe infections for patients receiving chemotherapy. A severe decrease in red blood cells, known as anemia, can affect a patient's quality of life and outcome. Currently, the most commonly used therapeutic approach to platelet loss is the use of platelet transfusions, which are expensive and have the complications and risks associated with blood transfusions.

We have licensed certain intellectual property rights from OHSU that support the use of NAC for various indications, including preventative therapy against the bone marrow toxicity caused by certain chemotherapy agents. NAC is the subject of ongoing Phase I investigation at OHSU under an investigator IND for use as a bone marrow protectant in the context of platinum-based chemotherapy. Upon the completion of these studies, we plan to re-evaluate the commercial potential of NAC for this and other indications.

Mesna

Preclinical research conducted at Rutgers has identified mesna as a potential method to alter a cancer's ability to develop resistance to chemotherapy. In addition to intolerable side effects that often limit the administration of effective treatments, the development of resistance to anti-cancer therapies is one of the most common causes for the failure to cure or effectively treat most cancers. Investigators at Rutgers have found that rapid changes in the oxygen reduction potential, or redox state, of cancer cells through exposure to chemotherapy and radiation therapy can cause cancer cells to develop resistance to further therapy. The research has shown that certain agents, including mesna, that stabilize the redox state of the cells, can reduce the development of cancer cell resistance by reducing the therapy induced changes in the redox state, and thus can enhance chemotherapeutic effectiveness. We have licensed worldwide intellectual property rights from Rutgers for certain methods of using mesna and other similar agents as chemoenhancers to prevent changes in the redox state of cancer cells. Investigators in Argentina, independent from the Company, have completed a Phase I trial with mesna for this indication. We continue to evaluate mesna but believe it will be necessary to repeat the findings of the Argentinean clinical trial prior to further developing this product candidate. We currently do not have any further development plans for mesna due to the addition of eniluracil to our R&D portfolio and financial resources devoted to the development of ADH-1. Should the facts and circumstances change, we could reinitiate the mesna development program, as we continue to have rights to the compound under out license agreement with Rutgers.

Preclinical Pipeline

Our product candidates are in the early stages of clinical development, so we strive to maintain a robust preclinical program to hedge against unavoidable development risks and might provide new product candidates. In considering our product candidates, it is important to remember we are subject to the risks of failure that are inherent in the development of therapeutic products and procedures based on innovative technologies as described in Item 3.D., "Risk Factors."

Our preclinical pipeline 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 and our collaborators are conducting preclinical studies on several of these molecules in order to select the best candidates to move into clinical trials. We have developed a wide range of peptide antagonists for an array of different cadherin molecules which will be used 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. We are developing small molecule antagonists of N-cadherin as an approach to modifying the effectiveness, specificity and to provide an oral formulation. 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. Some tumors may express N-cadherin, for example, and be responsive to an N-cadherin antagonist such as ADH-1 while other cancers may express VE-cadherin and be responsive to a VE-cadherin antagonist. The use of VE-cadherin antagonists, either alone or in combination with N-cadherin antagonists, may be more effective than one or the other alone. Few, if any, cancer therapies are universally useful in all cancer patients, and the same will likely be true for cadherin-based drugs. We expect that there may be specific cancer situations in which either an N-cadherin or a VE-cadherin antagonist candidate used alone would be useful and in other cancer situations, the two agents used together may be therapeutically complementary or synergistic.

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 our most promising agents. One such collaboration is with the NCI. In 2005, we received approval from the Drug Development Group ("DDG") of the NCI's Division of Cancer Treatment and Diagnosis for a Level III collaboration for the development of the Company's lead biotechnology compound, ADH-1. As part of that collaboration, we will be executing a Clinical Trial Agreement with the NCI's Cancer Therapy Evaluation Program and Developmental Therapeutics Program to support additional preclinical studies of ADH-1 in preparation of future NCI-sponsored clinical trials, particularly in combination with other anti-cancer agents. We also have a standard form screening agreement with the NCI from 2003, under which NCI continues to screen and test select Adherex compounds from our preclinical pipeline for their anti-cancer properties in various preclinical anti-cancer assays and tumor models. The NCI has no obligation to continue to perform preclinical or screening work for us and may terminate the above agreements at any time, as may we. In the event that we or the NCI terminate the above agreements, we may seek another third party to conduct similar work for us, which may result in increased costs for us.

Intellectual Property

Our general policy is to seek patent protection in the United States, major European countries, Japan, Canada and other jurisdictions as appropriate for our compounds and methods. Our cadherin-based patent portfolio currently includes patents with respect to our unique composition of matter, broad claims with respect to modulating cell adhesion, specific claims for the use of these compounds in various diseases and the pharmaceutical formulation of these compounds. We have also sought patent protection with respect to alternate "sites" of cell adhesion activity as well as related compounds, screening methods and antibodies. With respect to the intellectual property licensed from McGill, OHSU and Rutgers, we work closely with these institutions to continually strengthen and expand our worldwide patent protection.

Currently, we own or have licensed more than 40 issued U.S. patents and more than 50 pending patents worldwide.

Our success is significantly dependent on our ability to obtain patent protection for our product candidates, both in the United States and abroad. The patent position of biotechnology and pharmaceutical companies, in general, is highly uncertain and involves complex legal and factual questions, which often results in apparent inconsistencies regarding the breadth of claims allowed and general uncertainty as to their legal interpretation and enforceability. Further, some of our principal candidates, including STS, NAC and mesna, are based on previously known compounds, and candidates or products that we develop in the future may include or be based on the same or other compounds owned or produced by other parties, some or all of which may not be subject to effective patent protection. Also, regimens that we may develop for the administration of pharmaceuticals, such as specifications for the frequency, timing and amount of dosages, may not be patentable. Accordingly, our patent applications may not result in patents being issued and issued patents may not afford effective protection. Also, products or processes that we develop may turn out to be covered by third party patents, in which case we may require a license under such patents if we intend to continue the development of those products or processes. Any legal actions against us on the basis of a third party patent could be costly.

Corporate Relationships

General Collaboration Agreement with McGill University

In February 2001, we entered into a general collaboration agreement with McGill. Pursuant to the terms of the agreement, McGill granted us a 27-year exclusive worldwide license to develop, use and market certain cell adhesion technology and compounds. In particular, McGill granted us an exclusive worldwide license to U.S. Patent 6,031,072 covering specific compounds including ADH-1 (composition of matter), U.S. Patent 6,551,994 covering alpha-catenin and beta-catenin inhibiting compounds, related international filings under the Patent Cooperation Treaty ("PCT"), continuations and certain other patents and patent applications.

In consideration, we issued 508,416 shares of our common stock to McGill. We also agreed to pay to McGill future royalties of 2% of any gross revenues from the use of the technology and compounds. In addition, should we fail to meet certain development milestones, we are required to pay CAD$200,000 if we have not commenced Phase III clinical trials in a recognized jurisdiction on any licensed product prior to September 23, 2006. Pursuant to the agreement, we agreed to fund research at McGill over a period of 10 years totaling CAD$3.3 million. Annual funding commenced in 2001, the first year of the agreement, for a total of CAD$200,000, and increases annually by 10% through 2010, when the required annual funding reaches CAD$ 660,000. This research commitment can be deferred in any given year if it would exceed 5% of our cash and cash equivalents. To date, there have been no deferrals and we have paid out approximately CAD$0.9 million in research funding to McGill pursuant to this agreement and other research-related payments. Pursuant to the terms of the agreement, we are entitled to intellectual property rights that result from this research.

The term of the general collaboration agreement expires on September 23, 2028, unless earlier terminated by operation of law or as provided in the agreement. The agreement is terminable by either Adherex or McGill in the event of an uncured breach by either party after 60 days prior written notice. We also have the right to terminate the agreement at any time after September 2006 upon 60 days prior written notice to McGill.

Exclusive License Agreement with Rutgers, The State University of New Jersey

In November 2002, we acquired an exclusive license agreement with Rutgers through our acquisition of Oxiquant, which had entered into the license agreement with Rutgers in April 2001. Pursuant to the license agreement, Rutgers granted us an exclusive worldwide license to "Novel Redox Clamping Agents and Uses Thereof" (U.S. Provisional Patent Application Number 60/120,128, U.S. Patent Application Number 10/228,644, international filings under the PCT, continuations and certain other patent applications).

In consideration, Rutgers was issued 500,000 shares of common stock of Oxiquant, which were subsequently converted upon our acquisition of Oxiquant into 764,264 shares of Adherex common stock and warrants to purchase 43,899 shares of Adherex common stock at CAD$3.59 per share until May 20, 2007. In addition, we are required to make the following milestone payments: (i) $25,000 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, (ii) $50,000 upon commencement of the first Phase III clinical trial or equivalent, (iii) $100,000 upon receipt of market approval in the first major market country, (iv) $200,000 upon receipt of market approval in the second major market country, and (v) $300,000 on receipt of market approval in the third major market country. We are also required to pay an annual license maintenance fee on each anniversary of the agreement, starting at $5,000 in 2002 and increasing by $5,000 on each subsequent anniversary through the fifth anniversary. After completion of the fifth anniversary, and on each subsequent anniversary, the annual license maintenance fee shall be $50,000, but is generally creditable against royalties. Pursuant to the terms of the agreement, we are required to pay to Rutgers a 4% running royalty on net sales for any licensed products semiannually, and a 20% non-running royalty on any consideration received from sublicensing or transferring of the licensed technology. Through December 31, 2005, we have paid license maintenance fees totaling $45,000 under this agreement.

The term of the license agreement expires on the date of the last to expire claim(s) covered in the patents licensed to us in each country in the world in which there are intellectual property rights covered by the license, unless earlier terminated by operation of law or as provided in the agreement. The agreement is terminable by either Adherex or Rutgers in the event of an uncured breach by either party after 60 days prior written notice. We also have the right to terminate the agreement at any time upon 90 days prior written notice to Rutgers.

License Agreement with Oregon Health & Science University

In November 2002, we acquired an exclusive license agreement with OHSU through our acquisition of Oxiquant, which had entered into the license agreement with OHSU in September 2002. Pursuant to the license agreement, OHSU granted us an exclusive worldwide license to intellectual property surrounding work done by Dr. Edward Neuwelt with respect to thiol-based compounds and their use in oncology. In consideration, OHSU was issued 250,250 shares of common stock of Oxiquant which were subsequently converted upon the acquisition of Oxiquant into 382,514 shares of Adherex common stock and warrants to purchase 21,971 shares of Adherex common stock at CAD$3.59 per share until May 20, 2007. In addition, we are required to make the following milestone payments: (i) $50,000 upon completion of Phase I clinical trials, (ii) $200,000 upon completion of Phase II clinical trials, (iii) $500,000 upon completion of Phase III clinical trials and (iv) $250,000 upon the first commercial sale for any licensed product. We are also required to pay OHSU a 2.5% royalty on net sales of any licensed products and a 15% royalty on any consideration received from sublicensing of the licensed technology.

The term of the license agreement expires on the date of the last to expire claim(s) covered in the patents licensed to us, unless earlier terminated as provided in the agreement. The agreement is terminable by OHSU in the event of a material breach of the agreement by us or our sublicensees after 60 days prior written notice from OHSU. We have the right to terminate the agreement at any time upon 60 days prior written notice and payment of all fees due to OHSU under the agreement.

License Agreement with GlaxoSmithKline

In July 2005, we entered into a license and development agreement with GSK covering two drugs, eniluracil and ADH-1 with potential development and sales milestones totaling up to approximately $220.0 million. The agreement included 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. Under the agreement, Adherex received an exclusive license to develop eniluracil for all indications, and GSK retained options to buy back eniluracil at various points in its development. If GSK exercises any of its options on eniluracil, Adherex may receive development and sales milestone payments of up to approximately $120.0 million in aggregate, plus up to double-digit royalties on sales, depending upon if and when an option is exercised. Under the terms of the agreement, should GSK not exercise any options to buy-back its rights relating to eniluracil, we would be free to develop eniluracil alone or with other partners. If we file a NDA with the FDA, the Company may be required to pay 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 net annual sales. If we pursue other indications, we may be required to pay up to an additional $15.0 million to GSK per FDA-approved indication. The agreement also granted to GSK an option to receive a worldwide, exclusive license for Adherex's lead biotechnology compound, ADH-1. If GSK exercises its ADH-1 option, Adherex may receive upfront, development and sales milestone payments of up to approximately $100.0 million in aggregate plus double-digit royalties on sales.

Competition

Competition in the biotechnology and pharmaceutical industries is intense and characterized by the rapid advancement of technology. We expect that if any of our product candidates achieve regulatory approval for sale, they will compete on the basis of drug efficacy, safety, patient convenience, reliability, ease of manufacture, price, marketing, distribution and patent protection, among other variables. Our competitors may develop technologies or drugs that are more effective, safer or affordable than any we may develop.

There are a number of different approaches to the development of therapeutics for the treatment of cancer that are currently being used and studied. These approaches include: (i) surgery to excise the cancerous tissue; (ii) radiation therapy, which attacks cancerous cells but does not easily distinguish between healthy and diseased cells; (iii) chemotherapy, which works by preventing a cancerous cell from dividing or by killing cells that divide; (iv) immunotherapy, which stimulates the body's immune system to respond to the disease; and (v) hormone therapy, which may slow the growth of cancer cells or even kill them.

We are aware of a number of companies engaged in the research, development and testing of new cancer therapies or means of increasing the effectiveness of existing therapies, including, among many others, Abbott Laboratories, Amgen, Antisoma, AstraZeneca, Bayer, Bristol-Myers Squibb, EntreMed, Genentech, Merck & Co., NeoPharm, Novartis, Johnson & Johnson, OXiGENE, Peregrine Pharmaceuticals, Pfizer, Roche and Sanofi-Aventis. Some of these companies have products that have already received, or are in the process of receiving, regulatory approval or are in later stages of clinical development. Many of them have greater financial resources than we do. Many of these companies have marketed drugs or are developing targeted cancer therapeutics which, depending upon the mechanism of action of such agents, could be viewed as competitors. However, we are not aware of any other N-cadherin targeted compound in clinical trials. Because cancer treatment often consists of using different drug combinations, it is possible that agents that are either marketed (e.g., Taxotere or Avastin) or investigational could be combined with ADH-1 (after achievement of applicable regulatory requirements) in an effort to improve the efficacy in comparison to the agents used alone. In other words, while a drug with a similar mechanism of action, or with anti-tumor activity in a disease where ADH-1 is also shown to be active, could be viewed as a potential competitor when both drugs are used alone, the combination could prove to be superior to the current standard of care.

We are aware of at least four companies, AstraZeneca, Aventis, OXiGENE and Roche which are clinically developing cancer angiolytics. Their product candidates are tubulin depolymerizing agents which destroy the scaffold-like structure that

supports the lining cells (endothelial cells) of blood vessels, causing the endothelial cells to round and cutting off blood flow through the blood vessel. They thus cut off a tumor's blood supply and lead to tumor cell death. Some other angiolytic agents are known to us to be in preclinical development, including antibodies to tumor blood vessel wall components and agents linked with liposomal cytotoxic agents, but little information about these agents is publicly available at this time. These competing angiolytics work in a very different manner than ADH-1 and, to our knowledge, we are the only company approaching tumor angiolysis from the perspective of peptide-based cadherin antagonism, or the disruption of tumor blood vessels by inhibiting the proteins that hold the blood vessels together. Tumor angiolysis is an emerging field, and our competitors' tubulin depolymerizing agents, like our drug candidates, are still in clinical development. To our knowledge, no angiolytic products have entered Phase III; however Oxigene has announced its intention to conduct a Phase III study in the United Kingdom ("UK") with its angiolytic agent. Accordingly, it is premature to speculate on the potential advantages and disadvantages of different angiolytic agents because the efficacy and tolerability profiles of these agents are not yet publicly available. Our competitors might obtain regulatory approval for their drug candidates sooner than we do, and/or their drugs may prove to be more competitive than ours.

Anti-angiogenic compounds, which aim to prevent the growth of new tumor vessels, may compete with angiolytic compounds like ADH-1, but they may also be complementary. For instance, it may be useful to consider the use of an anti-angiogenic agent in sequential therapy with an angiolytic agent as a way to initially destroy existing tumor vessels and subsequently prevent new tumor blood vessel growth.

Programmed cell death or apoptosis has a critical role in the maintenance of healthy tissues. It is being increasingly recognized that defects in apoptotic mechanisms and pathways commonly occur to allow cancer cells to survive, flourish and accumulate – in fact, the defects in the apoptotic pathways are fundamental properties of cancer biology. In recent years, the molecular underpinning of apoptosis pathways has received considerable attention and provides another opportunity for potential therapeutic intervention by inducing apoptosis in tumor cells. Many such apoptosis inducers are in preclinical and clinical development as oncology therapeutics candidates with companies that include Sanofi-Aventis, Abbott Laboratories, Novartis, Pfizer and Merck & Co.

There are several potential therapies that may be competitive to our eniluracil with 5-FU combination strategy. Capecitabine which is marketed by Roche is an oral prodrug of 5-FU that is converted to 5-FU following absorption from the gastrointestinal tract. Capecitabine is approved by the FDA and many other regulatory agencies worldwide for use in breast and colorectal cancer. Tegafur, marketed by Bristol-Myers Squibb Company ("BMS") is another oral 5-FU prodrug that has not been approved by the FDA, but is marketed in Japan and several European countries.

5-FU is normally rapidly metabolized and broken down by the enzyme DPD. Eniluracil is an irreversible inhibitor of DPD and its use with 5-FU leads to prolonged and elevated levels of 5-FU. Uracil is a competitive inhibitor of DPD. Although not FDA approved as a therapeutic agent, uracil has sometimes been used with 5-FU and tegafur for the treatment of certain cancers. UFT is an orally active combination of uracil and tegafur that is available in some international markets through BMS.

S-1, which is under development by BMS is an orally active combination of tegafur, a DPD inhibitor (5-chloro-2, 4-dihydrozypyidine, or CDHP) and oxonic acid, an inhibitor of phosphoribosyl pyrophosphate transferase, an enzyme that reduces the incorporation of 5-FU into RNA. S-1 is currently in clinical development. Other DPD inhibitors are in development, including a Roche molecule, Ro 09-4889, that has completed a Phase I clinical study.

We are not aware of any commercially available agents that reduce the incidence of hearing loss associated with the use of platinum-based anti-cancer agents, for which purpose we are attempting to develop STS. We are aware of one company, Sound Pharmaceuticals, that is developing agents for noise and age related hearing loss. We are also aware of research relating to the use of high doses of amifostine (a drug used to control some of the side effects of chemotherapy and radiation therapy) for the protection of hearing in connection with platinum-based chemotherapy. Cochlear implants, which are small electronic devices that are surgically placed in the inner ear to assist with certain types of deafness, are utilized to offer some relief, and other companies may seek to develop such agents in the future.

We are developing NAC as a bone marrow protectant to be used to prevent bone marrow toxicity (low white blood cells, red blood cells, and platelets) caused by certain cancer drugs. There are, however, drugs approved or in clinical development for the prevention or treatment of thrombocytopenia (low platelet count caused by various anti-cancer therapies), including Wyeth's Neumega and Amgen's AMG 531. Platelet transfusions are also a common practice, and other companies may attempt to develop platelet protectants in the future to decrease the need for platelet transfusions. There are drugs that are approved for the treatment of a low neutrophil count, including Amgen's Neumega and Neulasta. Approved drugs used for the treatment of chemotherapy-induced anemia include Ortho Biotech's Procrit and Amgen's Aranesp.

Many chemotherapeutic agents are currently available and numerous others are being developed. However, cancer as a disease is not currently controlled by any one anti-cancer agent, and there is typically a need for several agents at any one time and over time, different regimens and cocktails of agents are often used.

Many of our existing or potential competitors have substantially greater financial, technical and human resources than we do and may be better equipped to develop, manufacture and market products. In addition, many of these competitors have

extensive experience with preclinical testing and human clinical trials and in obtaining regulatory approvals. Also, many of the smaller companies that compete with us have formed collaborative relationships with large, established companies to support the research, development, clinical trials and commercialization of any products that they may develop. To date, our license and development agreement with GSK is the only such collaboration we have but it does not provide any ongoing funding or direct support for our current clinical programs but rather milestones and royalties upon the exercise of options by GSK. We may rely on third parties to commercialize any products we develop, and our success will depend in large part on the efforts and competitive merit of these collaborative partners. Academic institutions, government agencies and other public and private research organizations may also conduct research, seek patent protection and establish collaborative arrangements for research, clinical development and marketing of products similar to those we seek to develop. These companies and institutions compete with us in recruiting and retaining qualified scientific and management personnel as well as in acquiring technologies complementary to our projects. The existence of competitive products, including products or treatments of which we are not aware, or products or treatments that may be developed in the future, may adversely affect the marketability of any products that we may develop.

Government Regulation

The production and manufacture of our product candidates and our research and development activities are subject to regulation for safety, efficacy and quality by various governmental authorities around the world.

In Canada, these activities are subject to regulation by Health Canada's Therapeutic Products Directorate, or TPD, and the rules and regulations promulgated under the Food and Drug Act. In the United States, drugs and biological products are subject to regulation by the FDA. The FDA requires licensing of manufacturing and contract research facilities, carefully controlled research and testing of products, governmental review and/or approval of results prior to marketing therapeutic products. Additionally, the FDA requires adherence to "GLP" as well as "GCP" during clinical testing and "GMP" and adherence to labeling and supply controls. The systems of new drug approvals in Canada and the United States are substantially similar, and are generally considered to be among the most rigorous in the world.

Generally, the steps required for drug approval in Canada and the United States, specifically in cancer related therapies, include:

Preclinical Studies: Preclinical studies, also known as non-clinical studies, primarily involve evaluations of pharmacology, toxic effects, pharmacokinetics and metabolism of a drug in animals to provide evidence of the relative safety and bioavailability of the drug prior to its administration to humans in clinical studies. A typical program of preclinical studies takes 18 to 24 months to complete. The results of the preclinical studies as well as information related to the chemistry and comprehensive descriptions of proposed human clinical studies are then submitted as part of the IND application to the FDA, the CTA to the TPD, or similar submission to other foreign regulatory bodies. This is necessary (in Canada, the United States and most other countries) prior to undertaking clinical studies. Additional preclinical studies are conducted during clinical development to further characterize the toxic effects of a drug prior to submitting a marketing application.

Phase I Clinical Trials: Most Phase I clinical trials take approximately one year to complete and are usually conducted on a small number of healthy human subjects to evaluate the drug's safety, tolerability and pharmacokinetics. In some cases, such as cancer indications, Phase I clinical trials are conducted in patients rather than healthy volunteers.

Phase II Clinical Trials: Phase II clinical trials typically take one to two years to complete and are generally carried out on a relatively small number of patients (generally between 15 and 50 patients) in a specific setting of targeted disease or medical condition, in order to provide an estimate of the drug's effectiveness in that specific setting. This phase also provides additional safety data and serves to identify possible common short-term side effects and risks in a somewhat larger group of patients. Phase II testing frequently relates to a specific disease, such as breast or lung cancer. Some contemporary methods of developing drugs, particularly molecularly targeted therapies, do not require broad testing in specific diseases, and instead permit testing in subsets of patients expressing the particular marker. In some cases, such as cancer indications, the company sponsoring the new drug may submit a marketing application to seek accelerated approval of the drug based on evidence of the drug's effect on a "surrogate endpoint" from Phase II clinical trials. A surrogate endpoint is a laboratory finding or physical sign that may not be a direct measurement of how a patient feels, functions or survives, but is still considered likely to predict therapeutic benefit for the patient. If accelerated approval is received, the company sponsoring the new drug must continue testing to demonstrate that the drug indeed provides therapeutic benefit to the patient.

Phase III Clinical Trials: Phase III clinical trials typically take two to four, or even more years to complete and involve tests on a much larger population of patients suffering from the targeted condition or disease. These studies involve conducting controlled testing and/or uncontrolled testing in an expanded patient population (several hundred to several thousand patients) at separate test sites (multi-center trials) to establish clinical safety and effectiveness. These trials also generate information from which the overall benefit-risk relationship relating to the drug can be determined and provide a basis for drug labeling. Phase III trials are generally the most time consuming and expensive part of a clinical trial program. In some instances, governmental authorities (such as the FDA) will allow a single Phase III clinical trial to serve as a pivotal efficacy trial to support a marketing application, which is called a New Drug Application or NDA in the U.S.

Marketing Application/NDA: Upon completion of Phase III clinical trials, the pharmaceutical company sponsoring the new drug assembles all the chemistry, preclinical and clinical data and submits it to the TPD or the FDA as part of a New Drug Submission in Canada or a New Drug Application in the United States. The marketing application is then reviewed by the regulatory body for approval to market the product. The review process generally takes 12 to 18 months.

Any clinical trials that we conduct may not be successfully completed, either in a satisfactory time period or at all. The typical time periods described above may vary substantially and may be materially longer. Also, the FDA and its counterparts in other countries have considerable discretion to discontinue trials if they become aware of any significant safety issues or convincing evidence that a therapy is not effective for the indication being tested. The FDA and its counterparts in other countries may not (i) allow clinical trials to proceed at any time after receiving an IND, (ii) allow further clinical development phases after authorizing a previous phase, or (iii) approve marketing of a drug after the completion of clinical trials and submission of an NDA.

While both European and U.S. regulatory systems require that medical products be safe, effective, and manufactured according to high quality standards, the drug approval process in Europe differs from that in the United States and Canada and may require us to perform additional preclinical or clinical testing regardless of whether FDA or TPD approval has been obtained. The amount of time required to obtain necessary approvals may be longer or shorter than that required for FDA or TPD approval. European Union Regulations and Directives generally classify health care products either as medicinal products, medical devices or in vitro diagnostics. For medicinal products, marketing approval may be sought using either the centralized procedure of the European Agency for the Evaluation of Medicinal Products ("EAEM") or the decentralized, mutual recognition process. The centralized procedure, which is mandatory for some biotechnology derived products, results in an approval recommendation from the EAEM to all member states, while the European Union mutual recognition process involves country by country approval.

C. Organizational structure

We carry on operations in Canada and the United States through our parent company, Adherex Technologies Inc., a wholly owned Canadian subsidiary, Cadherin Biomedical Inc., and through two wholly owned Delaware subsidiaries, Oxiquant, Inc. and Adherex, Inc.

D. Property, plant and equipment

We lease two facilities, one of which we sublease to another tenant. The facility we occupy has approximately 18,272 square feet of laboratory and office space in Research Triangle Park, North Carolina and has current monthly lease payments of $13,000 and the lease expires in August 2012. The subleased space consists of approximately 7,636 square feet of laboratory and office space and the current monthly payments are $8,930 and the lease expires in March 2010 and is sublet through March 2008. The sublease agreement is on the same terms as our original lease.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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"). A reconciliation from Canadian GAAP to United States ("U.S.") GAAP can be found in Item 18, "Financial Statements," footnote 20. 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 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 3.D., "Risk Factors."

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 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 and 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 we obtained funding in December 2003 and May 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 United States.

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 May 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 in 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 $15.0 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, 2004	Fiscal 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

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 our 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 our 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 Item 3.D above.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and senior management

The following table lists the directors and senior management of the Company and the positions they hold with the Company:

Name	Age	Position
William P. Peters, MD, PhD, MBA	55	Chief Executive Officer and Chairman of the Board of Directors
Raymond Hession (1)(2)(4)	65	Lead Independent Director of the Board of Directors
Donald W. Kufe, MD (2)(3)	61	Director
Fred H. Mermelstein, PhD (3)(4)	47	Director
Peter Morand, PhD (1)(4)	71	Director
Robin J. Norris, MD	59	President, Chief Operating Officer and Director
Arthur T. Porter, MD, MBA (1)(2)(3)	49	Director
Brian E. Huber, PhD	51	Chief Scientific Officer
James A. Klein, Jr., CPA	43	Chief Financial Officer
Rajesh K. Malik, MD	47	Chief Medical Officer
D. Scott Murray, BScPharm, LLB, MBA	36	Vice President, General Counsel and Corporate Secretary
Jeff Solash, PhD	58	Chief Licensing Officer

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

Board of Directors

The current Board of Directors was elected at our annual and special meeting of shareholders on April 29, 2005. Mr. Peter Karmanos resigned from the Board on July 15, 2005. We have granted a shareholder, HBM BioVentures (Cayman) Ltd., the right to appoint a nominee for election to the Board and the right to have an observer attend, but not vote at, our Board meetings. To date, HBM BioVentures has never sent an observer to any of our Board meetings, and has informed us that it does not intend to send any observers in the future. Dr. Porter was the director nominated by HBM BioVentures. He has no affiliation with HBM BioVentures.

The Board is currently composed of seven members. The Board has determined that each member other than Dr. Peters and Dr. Norris qualifies as "independent" under the current rules of the American Stock Exchange and Canadian Securities Administrators. We are of the view that the composition of the Board of Directors reflects a diversity of background and experience that is important for effective corporate governance.

Under our By-laws, as amended, the term in office of our directors expires at each annual general meeting of shareholders. If there is a vacancy in the Board, the remaining directors may exercise all the powers of the Board so long as a quorum remains in office. Under the CBCA, at least 25% of the Board must be residents of Canada.

Biographical information about each director and officer follows. Information about the Board's functions and its committees is set forth below under "—Broad practices—Report on Corporate Governance."

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.

Senior Management

In addition to Drs. Peters and Norris, the members of our senior management include:

Brian E. Huber, PhD

Dr. Huber joined Adherex as the Chief Scientific Officer in October 2004. Prior to joining Adherex, Dr. Huber was Vice President of Biology/Pharmacology in Drug Discovery for GlaxoSmithKline, where he directed the Departments of Metabolic Disease, Molecular Pharmacology & Endocrinology, Biochemical & Analytical Pharmacology, Virology and International Clinical Virology. From 1997 to 2001 he was Vice President of Pharmacology at GlaxoWellcome with responsibility for the departments of Cancer Biology, Musculoskeletal Diseases, Metabolic Diseases and Virology. From 1995 to 1997 he was the Director of the Division of Pharmacology at GlaxoWellcome.

James A. Klein, Jr., CPA

Mr. Klein joined Adherex as Chief Financial Officer in April 2004. From 1999 to April 2004, Mr. Klein founded and served as Chief Executive Officer and Chairman of DataScout Software Inc., a company that develops and commercializes software for the pharmaceutical industry. From 1995 to 1999, Mr. Klein served as Chief Financial Officer and Treasurer of Triangle Pharmaceuticals Inc., a publicly traded pharmaceutical company. Prior to that, Mr. Klein was the International Research and Development Financial Controller for Burroughs Wellcome Co., an international pharmaceutical group. Mr. Klein is a Certified Public Accountant.

Rajesh K. Malik, MD

Dr. Malik joined Adherex as the Chief Medical Officer in September 2004. Prior to joining Adherex, Dr. Malik was Executive Director at EMD Pharmaceuticals, where he directed the global clinical development strategy for three EMD/Merck KGaA oncology product candidates. From January 2000 to March 2002, he served as Associate Director at Bristol-Myers Squibb, where he was responsible for the global clinical development strategy for an oral taxane and for the company's pediatric initiatives. He served fellowships at the Children's Hospital of Philadelphia and Duke University Medical Center. From 1993 to 2000, he was Assistant Professor in the Department of Pediatrics at the University of Virginia in Charlottesville, VA. Dr. Malik completed his medical training in England, earning his M.B., Ch.B. degree from the University of Sheffield Medical School, with post-graduate training in the United Kingdom and in the United States.

D. Scott Murray, BScPharm, LLB, MBA

Mr. Murray has been General Counsel and Corporate Secretary of Adherex since February 2003 and a Vice President since September 2003. Prior to joining Adherex, Mr. Murray was an Associate at Osler, Hoskin & Harcourt LLP in Toronto specializing in private and public corporate finance, mergers and acquisitions as well as securities compliance and pharmaceutical regulatory matters. At Osler, Mr. Murray worked with a number of international pharmaceutical corporations, some of the largest securities dealers in North America, various early-stage biotechnology clients and also spent a secondment in the legal department of General Motors of Canada. Prior to joining Osler, Mr. Murray practiced as a pharmacist for over seven years, including several retail pharmacy management positions. Mr. Murray holds a Bachelor of Science in Pharmacy degree from Dalhousie University and LLB and MBA degrees from the University of Ottawa.

Jeff Solash, PhD

Dr. Solash joined Adherex as Chief Licensing Officer in October 2005 bringing with him more than 18 years experience in licensing and technology transfer. From 2003-2005, Dr. Solash served as a Licensing Executive at Delphi Technologies Inc., the technologies commercialization arm of Delphi Inc. Prior to that, he was Vice President, Technology Acquisition, for Paramount Capital Investments, a merchant banking and venture capital firm specializing in investments in biotechnology and pharmaceutical companies. From 1998-2000, Dr. Solash was President, Solash Consulting, a consulting practice focused on technology transfer from universities. Previously, he served as a licensing executive for Technology Management & Funding and the University of Pennsylvania. Dr. Solash's early career included positions as Vice President, Research at Energy & Minerals Research Company; Senior Research Chemist at Gulf Research & Development Company; Program Manager, U.S. Department of Energy and Research Chemist, Naval Research Laboratory. Dr. Solash received his Ph.D. in organic chemistry from the University of Pittsburgh.

Scientific and Clinical Advisory Board

Our Scientific and Clinical Advisory Board consists of individuals with demonstrated expertise in various fields who advise us concerning long-term scientific planning, research and development. The Scientific and Clinical Advisory Board also

evaluates our research programs and advises us on technological matters. The members of the Scientific and Clinical Advisory Board, which is chaired by Donald W. Kufe, MD, are:

Donald W. Kufe, MD	Professor of Medicine, Harvard's Dana-Farber Cancer Institute; Director, Adherex Technologies Inc.
Donald A. Berry, PhD	Frank T. McGraw Memorial Chair and Chairman of the Department of Biostatistics and Applied Mathematics at the University of Texas M.D. Anderson Cancer Center
Stephen Byers, PhD	Director of the MD/PhD Program and Professor of Oncology and Cell Biology at the Lombardi Cancer Center; Member of Interdisciplinary Program of Tumor Biology, Georgetown University Medical Center
Harold F. Dvorak, MD	Chief of the Department of Pathology, Beth Israel Deaconess Medical Center; Mallinckrodt Professor of Pathology, Harvard Medical School
Emil Frei, III, MD	Director and Physician-in-Chief Emeritus and Richard and Susan Smith Distinguished Professor of Medicine at Harvard Medical School
Robert Herfkens, MD	Professor of Radiology and Director of Magnetic Resonance Imaging at Stanford University
Mark Hughes, MD, PhD	President, Genesis Genetics Institute
Daniel D. Von Hoff, MD	Professor of Pathology, Molecular and Cellular Biology and Director of the Arizona Health Science Center's Cancer Therapeutic Programs at the University of Arizona; Chief Scientific Officer, US Oncology
Joseph Loscalzo, MD, PhD	Wade Professor and Chairman, Department of Medicine and Director of the Whitaker Cardiovascular Institute at the Boston University School of Medicine; Physician-in-Chief, Boston Medical Center
Ann Thor, MD	Lloyd E. Rader Professor and Chair, Department of Pathology, Adjunct Professor of Surgery, Associate Director for Translational Research and Program Director for Breast Cancer Program at the University of Oklahoma
Bruce Chabner, MD	Chief of Hematology/Oncology at Massachusetts General Hospital and Professor of Medicine at Harvard Medical School

B. Compensation

Statement of Executive Compensation

The following table sets forth the compensation earned during the year ended December 31, 2005 by our current Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers of Adherex Technologies Inc. and its subsidiaries (together, the "Named Executive Officers") in that year. All annual, bonus and other compensation amounts are in U.S. dollars.

	2005 Annual Compensation			Long-Term Compensation Awards	
Name and Principal Position	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Securities Under Options Granted #	All Other Compensation ($)
Dr. William Peters Chief Executive Office and Chairman of the Board	454,167	60,000	—	2,599,818	2,327
James A. Klein, Jr. Chief Financial Officer	185,000	55,500	—	272,500	1,053
Dr. Robin Norris President and Chief Operating Officer	236,000	70,800	—	332,000	2,157
Dr. Rajesh K. Malik Chief Medical Officer	235,000	67,500	—	166,800	1,289
Dr. Brian E. Huber Chief Scientific Officer	185,000	55,500	—	214,000	1,366

Option Grants During the Year Ended December 31, 2005

The following table sets forth stock options granted during the year ended December 31, 2005 to our Named Executive Officers under our Stock Option Plan, or otherwise, to whom any such stock options were granted during the most recently completed financial year in U.S. dollars:

Name and Position	Securities Under Options Granted (#)	Exercise Price ($/Security)	Expiration Date
Dr. William Peters	441,601	$ 1.20	2012
Chief Executive Officer and	192,000	$ 1.20	2012
Chairman of the Board	150,000	$ 1.10	2012
	30,000	$ 0.88	2012
James A. Klein, Jr.	13,500	$ 1.20	2012
Chief Financial Officer	39,000	$ 0.88	2012
Dr. Robin J. Norris	15,000	$ 1.20	2012
President and Chief Operating Officer	45,000	$ 0.88	2012
Dr. Rajesh K. Malik	7,200	$ 1.20	2012
Chief Medical Officer	9,600	$ 0.88	2012
Dr. Brian E. Huber	12,000	$ 1.20	2012
Chief Scientific Officer	52,000	$ 0.88	2012

Compensation of Directors

During the fiscal year ended December 31, 2005, Adherex's non-executive directors, as a group, were paid an aggregate of $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 a weighted average exercise price of $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 $4,000 to $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 $2,000 for each Board meeting attended in person, $500 for regular teleconference meetings (Level I), $750 for extended teleconference meetings (Level II) and $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.

Employment Agreements and Termination Provisions

We have entered into employment agreements with our senior management. The compensation in each case includes a combination of base salary, cash bonus, stock options and other benefits.

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 $350,000 (Dr. Peters' current annual salary is $486,875), (b) received a signing bonus totaling $200,000, of which $40,000 was paid at the time of signing and $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 $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 $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 $160,000 (Mr. Klein's current annual salary is $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 $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 $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 $185,000 (Dr. Malik's current annual salary is $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 $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 $165,000 (Dr. Huber's current annual salary is $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 $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.

Indebtedness of Directors and Officers

No individual, who is or, at any time during our most recently completed financial year, was a director, executive officer or senior officer of Adherex, nor any proposed nominee for election as a director of Adherex, nor any associate of any one of them:

(a) is or, at any time since the beginning of our most recent completed financial year, has been indebted to Adherex or any of its subsidiaries; or

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

C. Board Practices

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 Adherex's 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.

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.

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. During the fiscal year ended December 31, 2005, the Board held ten meetings. 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.

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.

Composition of Our Standing 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 our 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 our external auditor.

Audit Committee

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

The Audit Committee operates under a written charter adopted by the Board. The Audit Committee met four times during the fiscal year ended December 31, 2005. The current members of the Audit Committee are Mr. Hession (Chair), Dr. Morand and Dr. Porter. The Board has determined that each is "unrelated" for purposes of the Toronto Stock Exchange Guidelines and "independent" as defined by the current rules of the American Stock Exchange. The Board has determined that each member of the Audit Committee is financially literate for purposes of the American Stock Exchange and that Arthur Porter, MD, MBA has the requisite attributes of an "audit committee financial expert" as defined by regulations promulgated by the Securities and Exchange Commission.

Compensation Committee

The Compensation Committee of the Board determines the compensation to be paid to our executive officers and periodically reviews our compensation structure to ensure that we continue to attract and retain qualified and experienced individuals to our management team and motivate these individuals to perform to the best of their ability and in the Company'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 regularly assesses director compensation to ensure it is fair and consistent with market practices generally. The Compensation Committee also administers our Stock Option Plan and approves new stock option grants.

The Compensation Committee operates under a written charter adopted by the Board. The current members of the Compensation Committee are Dr. Porter (Chair), Mr. Hession and Dr. Kufe. The Board has determined that each is "unrelated" for purposes of the Toronto Stock Exchange Guidelines and "independent" as defined by the current rules of the American Stock Exchange. The Compensation Committee held five meetings during the fiscal year ended December 31, 2005.

Nominating Committee

The Nominating Committee of the Board of Directors 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 also evaluates director compensation in the context of evaluating director recruitment and retention. The Nominating Committee is authorized to retain advisors and consultants and compensate them for their services.

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 the Company's strategic needs. The current members of the Nominating Committee are Dr. Kufe (Chair), Dr. Mermelstein and Dr. Porter. The Board has determined that each is "unrelated" for purposes of the Toronto Stock Exchange Guidelines and "independent" as defined by the current rules of the American Stock Exchange. The Nominating Committee held no meetings during the fiscal year ended December 31, 2005.

Governance Committee

The Governance Committee of the Board of Directors develops, recommends and oversees the effectiveness of the Company'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 current members of the Governance Committee are Mr. Hession (Chair), Dr. Mermelstein, and Dr. Morand. The Board has determined that each is "unrelated" for purposes of the Toronto Stock Exchange Guidelines and "independent" as defined by the current rules of the American Stock Exchange. The Governance Committee held one meeting during the fiscal year ended December 31, 2005.

D. Employees

As of December 31, 2005, we had 29 full-time employees. We intend to add approximately 5 more employees primarily in the research and development areas of the Company during 2006.

E. Share ownership

The following table shows the number of shares of common stock, options and warrants to purchase common stock beneficially owned by each director and Named Executive Officer as of February 28, 2006. We have included all securities of the Company owned by each individual, irregardless of when those securities vest.

Name	Common Shares Held Directly	Options and Warrants Outstanding	% of Outstanding Common Stock (1)	Exercise Price	Expiration Date
William P. Peters, MD, PhD, MBA	115,982	15,566	6.10%	CAD$ 2.7500	06/23/2007
		30,591		CAD$ 2.1500	12/19/2008
		750,000		CAD$ 1.6500	02/19/2010
		770,217		CAD$ 2.2500	12/30/2010
		234,000		CAD$ 2.9000	05/21/2011
		32,000		CAD$ 1.9500	12/17/2011
		633,601		US$ 1.2000	04/05/2012
		150,000		US$ 1.1000	10/14/2012
		30,000		US$ 0.8800	12/14/2012
Raymond Hession	171,832	8,589	0.67%	CAD$ 2.7500	06/23/2007
		16,944		CAD$ 2.1500	12/19/2008
		2,600		CAD$ 1.7000	05/03/2010
		18,621		CAD$ 3.2500	03/01/2011
		4,000		CAD$ 2.9000	05/21/2011
		6,000		CAD$ 1.9500	12/17/2011
		18,621		US$ 1.2000	05/18/2012
		30,000		US$ 1.2000	09/21/2012
		7,500		US$ 0.8800	12/14/2012
Donald W. Kufe, MD	—	4,000	0.21%	CAD$ 2.9000	05/21/2011
		19,622		CAD$ 3.2500	03/01/2011
		4,000		CAD$ 1.7000	05/03/2010
		19,621		US$ 1.2000	05/18/2012
		40,000		US$ 1.2000	09/21/2012
		2,500		US$ 0.8800	12/14/2012
Fred H. Mermelstein, PhD	1,363,410	76,384	3.60%	CAD$ 3.5850	11/20/2007
		23,078		CAD$ 2.1500	12/19/2008
		7,800		CAD$ 1.7000	05/03/2010
		18,622		CAD$ 3.2500	03/01/2011
		4,000		CAD$ 2.9000	05/21/2011
		18,621		US $ 1.2000	05/18/2012
		30,000		US $ 1.2000	09/21/2012
Peter Morand, PhD	55,000	40,000	0.59%	CAD$ 1.6375	02/25/2007
		80,000		CAD$ 3.7500	02/25/2007
		7,800		CAD$ 1.7000	05/03/2010
		18,621		CAD$ 3.2500	03/01/2011
		4,000		CAD$ 2.9000	05/21/2011
		18,621		US $ 1.2000	05/18/2012
		30,000		US $ 1.2000	09/21/2012
Robin Norris, MD	8,100	120,000	0.79%	CAD$ 1.6500	12/12/2008
		40,000		CAD$ 1.7000	05/03/2010
		75,600		CAD$ 2.2500	12/30/2010
		36,400		CAD$ 2.9000	05/21/2011
		15,000		US$ 1.2000	09/21/2012
		45,000		US$ 0.8800	12/14/2012
Arthur T. Porter, MD, MBA	—	18,621	0.18%	CAD$ 3.2500	03/01/2011
		4,000		CAD$ 2.9000	05/21/2011
		2,000		CAD$ 1.9500	12/17/2011
		18,621		US$ 1.2000	05/18/2012
		30,000		US$ 1.2000	09/21/2012
		2,500		US$ 0.8800	12/14/2012
Dr. Brian E. Huber, PhD	—	150,000	0.50%	CAD$ 1.9500	10/08/2011
		12,000		US$ 1.2000	09/21/2012
		52,000		US$ 0.8800	12/14/2012
James A. Klein, Jr., CPA	—	200,000	0.64%	CAD$ 2.6500	04/26/2011
		15,000		CAD$ 2.9000	05/21/2011
		5,000		CAD$ 1.9500	12/17/2011
		13,500		US$ 1.2000	09/21/2012
		39,000		US$ 0.8800	12/14/2012
Rajesh K. Malik, MD	—	150,000	0.39%	CAD$ 2.0000	08/20/2011
		7,200		US$ 1.2000	09/21/2012

		9,600		US$	0.8800	12/14/2012
All executive officers and directors as a group (twelve persons)	1,714,324	4,518,057	13.20%			

(1) In computing the percentage of outstanding common stock owned by a person, we have deemed common stock subject to options or warrants held by that person (vested and unvested) to be outstanding, but we have not deemed those shares to be outstanding for purposes of computing the percentage ownership of any other person. Ownership percentage is based on 42,628,933 shares of our common stock outstanding as of February 28, 2006.

Adherex Stock Option Plan

Our Amended and Restated Stock Option Plan is intended to encourage the ownership of common stock by our employees, directors and key consultants and to provide additional incentive for such persons to promote our success in a highly competitive business environment. As of February 28, 2006, 5,600,000 shares of common stock have been reserved for issuance upon exercise of options issuable under our Stock Option Plan, of which options to purchase 4,546,547 shares of common stock have been granted to employees, directors, and key consultants and remain outstanding, and 36,600 shares of common stock have been issued pursuant to stock option exercises.

Options to purchase common stock are granted in accordance with the terms of our Stock Option Plan. Pursuant to this Plan and the charter of the Compensation Committee, the Compensation Committee has the authority to approve those individuals of the Company to whom options will be granted and the number of options to be granted. The exercise price for purchasing common stock under our Stock Option Plan is fixed based upon the closing price of either the Toronto Stock Exchange or the American Stock Exchange on the day immediately preceding the date of grant.

In addition to the options to purchase common stock pursuant to our Stock Option Plan, on December 16, 2003, our shareholders approved a grant to Dr. William Peters of options to purchase 700,000 shares of common stock outside of the Stock Option Plan, having an exercise price equal to the market price of the our common stock on the date of the grant. For further information concerning Dr. Peters' option grants, see "—Employee Agreements and Termination Provisions."

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major shareholders

As used in this section, a "beneficial owner" is any person who, even if not the record owner of securities, has or shares the underlying benefits of ownership. These benefits include the power to direct the voting or the disposition of the securities or to receive the economic benefit of ownership of the securities. A person also is considered to be the beneficial owner of securities that he or she has the right to acquire within 60 days by option or other agreement. Beneficial owners include person who hold their securities through one or more trustees, brokers, agents, legal representatives or other intermediaries, or through companies in which they have a "controlling interest," which means the direct or indirect power to direct the management and policies of the entity. In this section, ownership percentage is based on 42,628,933 shares of our common stock outstanding as of February 28, 2006.

To our knowledge, as at the date of this Annual Report, the only persons who beneficially own, directly or indirectly, or exercise control or direction over voting securities of the Company carrying more than 5% of the voting rights of the total issued and outstanding shares of the Company are as follows:

	Number of Voting Securities Owned	
Name	Common Stock	Percentage of Class
HBM BioVentures (Cayman) Ltd.	5,592,717(1)	18.3%
The VenGrowth Advanced Life Sciences Fund Inc.	3,989,218(2)	13.4%
OrbiMed Advisors LLC	3,759,117(3)	12.4%
GlaxoSmithKline plc	2,142,857(4)	6.4%

(1) Includes 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 $1.75, expiring on July 20, 2008.

(2) Includes a warrant to purchase 1,428,571 shares of common stock at an exercise price of CAD$2.15, expiring December 19, 2008 and a warrant to purchase 566,038 shares of common stock at an exercise price of CAD$3.50, expiring May 20, 2007.

(3) Includes a warrant to purchase 1,145,000 shares of common stock at an exercise price of CAD$2.15, expiring December 19, 2008, a warrant to purchase 373,359 shares of common stock at an exercise price of CAD$3.50, expiring May 20, 2007 and a warrant to purchase 214,320 shares of common stock at an exercise price of $1.75, expiring on July 20, 2008.

(4) Includes a warrant to purchase 642,857 shares of common stock at an exercise price of $1.75, expiring July 20, 2008.

The above shareholders do not have different voting rights from any other shareholder of the Company. HBM BioVentures (Cayman) Ltd. does, however, have the right to appoint a nominee for election to the Board by our shareholders and the right to have an observer to attend, but not vote at, our Board meetings. To date, HBM BioVentures (Cayman) Ltd. has never sent an observer to any of our Board meetings, and has informed us that it does not intend to send any observers in the future. Dr. Porter was the director nominated by HBM Bioventures (Cayman) Ltd. He has no affiliation with HBM BioVentures (Cayman) Ltd.

During the past three years, the following significant changes occurred in the percentage ownership of the major shareholders listed in the table above. On December 19, 2003, HBM BioVentures (Cayman) Ltd. beneficially owned 17.8% of our common stock, The VenGrowth Advanced Life Sciences Fund Inc. beneficially owned 13.5% of our common stock, and

OrbiMed Advisors LLC beneficially owned 10.9% of our common stock, in each case as the result of acquisitions of common stock and warrants in financings we completed in December 2003. On May 20, 2004, HBM BioVentures (Cayman) Ltd. beneficially owned 18.0% of our common stock, The VenGrowth Advanced Life Sciences Fund Inc. beneficially owned 15.8% of our common stock, and OrbiMed Advisors LLC beneficially owned 12.2% of our common stock, in each case as a result of acquiring common stock and warrants in the financing we completed in May 2004. On July 20, 2005, HBM BioVentures (Cayman) Ltd. beneficially owned 18.3% of our common stock, OrbiMed Advisors LLC beneficially owned 12.4% of our common stock and GlaxoSmithKline plc beneficially owned 6.4% of our common stock, in each case as a result of acquiring common stock and warrants in the financing we completed in July 2005. The VenGrowth Advanced Life Sciences Fund Inc. did not participate in the July 2005 financing and beneficially owned 13.4% of our common stock after the July 2005 financing.

As of March 2006, (i) 36 of the record holders of our common stock were citizens or residents of the United States, or corporations created or organized in or under the laws of the United States and (ii) 33% of our total outstanding common stock was directly or indirectly held of record by U.S. residents, in each case calculated in accordance with Rule 3b-4(c) promulgated under the Securities Exchange Act of 1934, as amended.

We are not controlled directly or indirectly by any other corporation or any other foreign government or by any other natural or legal person, severally or jointly.

There are no arrangements the operation of which at a subsequent date may result in a change in our control.

B. Related party transactions

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 July 2004, in an effort to reacquire rights to the non-cancer applications relating to the cadherin technology and settle our litigation with CBI, we entered into a non-binding letter of intent to acquire all of the issued and outstanding shares of CBI through an amalgamation of CBI with a wholly-owned subsidiary of Adherex formed for this purpose. On December 3, 2004, we completed the acquisition of CBI. Pursuant to the terms of the amalgamation, we issued to CBI shareholders approximately 0.6 million shares of Adherex common stock valued at CAD$1.5 million based on a 20-day weighted average trading price. This common stock was issued in exchange for all of the issued and outstanding stock of CBI. Robin Norris, an officer and director of Adherex, and Raymond Hession and Peter Morand, directors of Adherex, are each former directors and shareholders of CBI. William Peters is also a former shareholder of CBI. Immediately prior to the acquisition, Mr. Hession owned 277,500 preferred shares of CBI, Dr. Morand owned 200,000 preferred shares of CBI, Dr. Norris owned 18,000 preferred shares of CBI, and Dr. Peters owned 100 preferred shares of CBI, and were thus entitled to receive in the aggregate approximately 7,000 shares of Adherex common stock pursuant to the terms of the amalgamation.

On July 20, 2005, Adherex completed a private placement offering of 6,078,627 units for gross proceeds of $8.5 million. The units were issued at a purchase price of $1.40 per unit. Each unit consisted of one share of Adherex common stock and 0.30 of a common stock purchase warrant. Each whole warrant entitles the holder to acquire one additional share of Adherex common stock at an exercise price of $1.75 per share for a period of three years. HBM BioVentures (Cayman) Ltd., and OrbiMed Advisors LLC, purchased 1,071,429 and 714,400 units, respectively, as part of the offering.

C. Interests of experts and counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated statements and other financial information

Please see Item 18, “Financial Statements” for a list of the financial statements filed as part of this Annual Report.

In the fiscal year 2005, we did not receive revenue from exports.

We have not been involved in any material legal or arbitration proceedings, including bankruptcy, receivership or similar proceedings. To our knowledge, there has been no proceedings with third parties which may have, or have had in the recent past, significant effects on our financial positions or profitability.

Other than the Class A Preferred Shares of CBI which were distributed as a dividend in November 2002, we have neither declared nor paid dividends on any of our outstanding common stock, and do not intend to do so in the foreseeable future. We intend to retain any future earnings to finance the expansion of our business. Any future determination to pay dividends will be at the discretion of the Board of Directors and will depend upon our financial condition, results of operations, capital requirements, as well as any other factors deemed relevant by our Board.

B. Significant changes

Not applicable.

ITEM 9. THE OFFER AND LISTING

A. Offer and listing details

The issued and outstanding shares of our common stock are listed and posted for trading on the Toronto Stock Exchange under the trading symbol "AHX" and on the American Stock Exchange under the trading symbol "ADH." Our shares of common stock are registered shares on the books of our transfer agent.

Computershare Investor Services Inc., 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1 is the transfer agent and registrar for the Company's common stock in Canada and the United States (through a U.S. affiliate). There are no transfer restrictions apart the requirement that any transfers comply with applicable securities laws and the rules of applicable securities exchanges.

The following tables sets forth information regarding the price history of our common stock on the Toronto Stock Exchange and the American Stock Exchange, on which the Company began trading on November 12, 2004, for the periods indicated:

(1) the annual high and low market closing prices, and average daily trading volume on the Toronto Stock Exchange and the American Stock Exchange, for the five most recent full financial years:

	Toronto Stock Exchange (in Canadian dollars)			American Stock Exchange (in U.S. dollars)		
	High $	Low $	Volume	High $	Low $	Volume
Fiscal 2005	$2.30	$0.91	16,915	$2.20	$0.82	22,348
Six-Month Fiscal Transition 2004	2.60	1.75	21,660	2.20	1.55	11,898
Fiscal 2004	3.95	1.90	19,046	N/A	N/A	N/A
Fiscal 2003	2.95	1.50	8,179	N/A	N/A	N/A
Fiscal 2002	5.40	1.50	13,643	N/A	N/A	N/A
Fiscal 2001	5.95	4.75	10,175	N/A	N/A	N/A

(2) the quarterly high and low market closing prices, and average daily trading volume on the Toronto Stock Exchange and the American Stock Exchange, for the two most recent full financial years and any subsequent period:

	Toronto Stock Exchange (in Canadian dollars)			American Stock Exchange (a) (in U.S. dollars)		
	High $	Low $	Volume	High $	Low $	Volume
Fiscal 2005:						
Quarter ended 12/31/05	$1.45	$0.91	17,457	$ 1.22	$ 0.82	33,074
Quarter ended 09/30/05	2.30	1.29	25,481	1.90	1.10	34.127
Quarter ended 06/30/05	2.25	1.30	12,524	1.75	1.02	11,262
Quarter ended 03/31/05	2.20	1.50	12,039	1.80	1.25	10,002
Six-Month Fiscal Transition 2004:						
Quarter ended 12/31/04	2.60	1.90	21,455	2.20	1.55	11,898
Quarter ended 9/30/04	2.50	1.75	21,866	N/A	N/A	N/A
Fiscal 2004:						
Quarter ended 6/30/04	3.15	2.05	21,560	N/A	N/A	N/A
Quarter ended 3/31/04	3.95	2.50	38,272	N/A	N/A	N/A
Quarter ended 12/31/03	2.50	1.90	8,490	N/A	N/A	N/A
Quarter ended 9/30/03	2.70	2.30	7,530	N/A	N/A	N/A

(a) The Company began trading on the American Stock Exchange on November 12, 2004

(3) the high and low market closing prices, and average daily trading volume on the Toronto Stock Exchange and American Stock Exchange, for the most recent six months:

	Toronto Stock Exchange (in Canadian dollars)			American Stock Exchange (in U.S. dollars)		
	High $	Low $	Volume	High $	Low $	Volume
February 2006	$1.64	$1.33	16,695	$1.40	$1.18	39,595
January 2006	1.41	0.88	18,314	1.29	0.82	44,873
December 2005	1.16	0.91	21,345	0.97	0.82	47,886
November 2005	1.27	1.05	16,495	1.07	0.94	27,409
October 2005	1.45	1.00	15,068	1.22	0.89	18,150
September 2005	1.71	1.29	12,464	1.42	1.11	17,991

B. Plan of distribution

Not applicable.

C. Markets

The Company's common stock is traded on the Toronto Stock Exchange under the symbol "AHX" and on the American Stock Exchange under the trading symbol "ADH."

D. Selling shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share capital

Not applicable.

B. Memorandum and articles of association

Item 10.B of the Company's Form 20-F/A dated November 5, 2004 is incorporated herein by reference.

C. Material contracts

Other than contracts entered into in the ordinary course of business and those previously reported as referenced in Item 19, the Company has entered into the material contracts listed as "Filed herewith" in Item 19 hereto in the last two calendar years.

D. Exchange controls

There are currently no limitations imposed by Canadian federal or provincial laws on the rights of non-resident or foreign owners of Canadian securities to hold or vote the securities held by such persons in the Company, other than are provided in the Investment Canada Act, as described below. There are also no such limitations imposed by the Company's Articles and By-laws with respect to the common stock.

Investment Canada Act

Under the Investment Canada Act, the acquisition of control by a "non-Canadian" of a Canadian business that carries on most types of business activities (including the business activity carried on by the Company) is subject to review in certain circumstances by the Investment Review Division of Industry Canada ("Industry Canada"), a Canadian federal government department, and will not be allowed unless the investment is found by the Minister responsible for Industry Canada likely to be of "net benefit" to Canada. On the other hand, the acquisition of control of a Canadian business which carries on a specific type of business activity, as prescribed, that is related to Canada's cultural heritage or national identity by a non-Canadian is subject to review in certain circumstances by the Department of Canadian Heritage.

Subject to the provisions relating to so-called WTO transactions as described below, an acquisition of control will be reviewable by Industry Canada if the "value of the assets" of the Canadian business for which control is being acquired is: (a) CAD$5.0 million or more in the case of a "direct" acquisition; (b) CAD$50.0 million or more in the case of an "indirect" acquisition, which is a transaction involving the acquisition of the shares of a corporation incorporated outside Canada which

owns subsidiaries in Canada; or (c) CAD$5.0 million or more but less than CAD$50.0 million where the Canadian assets acquired constitute more than 50% of the value of the assets of all entities acquired, if the acquisition is effected through the acquisition of control of a foreign corporation.

These thresholds have been increased respecting the acquisition of control of a Canadian business (1) by investors which are ultimately controlled by nationals of countries which are members of the World Trade Organization ("WTO"), including Americans; or (2) which is a WTO member-controlled (other than Canadian controlled) Canadian business (either, a "WTO transaction"). A direct acquisition in WTO transactions is reviewable only if it involves the direct acquisition of a Canadian business where the value of the assets is CAD$265.0 million or more for transactions closing in 2006 (this figure is adjusted annually to reflect the increase in the Canadian nominal gross domestic product at market prices). The Investment Review Division of Industry Canada has taken the position that an indirect acquisition of a Canadian business by or from WTO Investors are generally not reviewable.

These increased thresholds applicable in WTO transactions do not apply to the acquisition of control of a Canadian business that is engaged in certain sensitive areas such as uranium production, financial services, transportation services or culture businesses.

Even if such acquisition of control is not so reviewable, a non-Canadian must still give notice to Industry Canada of the acquisition of control of a Canadian business within 30 days after its completion.

Competition Act (Canada)

Under the Competition Act, certain transactions are subject to the pre-notification requirements of the Competition Act whereby notification of the transaction and specific information in connection therewith must be provided to the Commissioner of Competition. A transaction may not be completed until the applicable statutory waiting periods have expired, namely 14 days for a short-form filing or 42 days for a long-form filing. Where the parties elect to file a short-form notification, the Commissioner may convert the filing to a long-form, thereby restarting the clock once the parties submit their filing.

A proposed transaction is subject to pre-notification if two thresholds are exceeded. First, the parties and their affiliates must have assets in Canada or gross revenues from sales in, from or into Canada that exceed CAD$400.0 million in aggregate value. Second, the parties to a transaction involving a corporation which carries on an "operating business" in Canada must then notify the Commissioner of Competition in cases where: (a) in respect of a proposed acquisition of assets of an operating business (defined in the Competition Act (Canada) as a business undertaking in Canada to which employees employed in connection with the undertaking ordinarily report for work), the value of the assets or the annual gross revenues from sales in or from Canada generated from those assets would exceed CAD$35.0 million; (b) in respect of a proposed acquisition of voting shares of a corporation carrying on an operating business, the value of the assets of the acquired corporation or the annual gross revenues from sales in or from Canada generated from those assets would exceed CAD$35.0 million, and the persons acquiring the shares would acquire an interest in the corporation exceeding either 20% in the case of a public corporation or 35% in the case of a private corporation. If the parties already surpass the 20% or the 35% threshold, and make a subsequent share purchase which results in their owning more than a 50% interest, then the subsequent transaction also requires notification; (c) in the case of a corporate amalgamation, where one or more of the corporations carries on an operating business, the value of the assets of the continuing corporation or the annual gross revenues sales in or from Canada generated from those assets would exceed CAD$70.0 million; or (d) in the case of a proposed combination, the value of the assets of the continuing business or the annual gross revenues from sales in or from Canada generated from those assets would exceed CAD$35.0 million.

Finally, all merger transactions, regardless of whether they are subject to pre-notification, are subject to the substantive provisions of the Competition Act, namely whether the proposed merger prevents or lessens, or is likely to prevent or lessen, competition substantially in a relevant market in Canada.

E. Taxation

This section summarizes the material U.S. federal and Canadian federal income tax consequences of the ownership and disposition of the common stock. Nothing contained herein shall be construed as tax advice; you must rely only on the advice of your own tax advisor. The Company makes no assurances as to the applicability of any tax laws with respect to any individual investment. This summary relating to the common stock applies to the beneficial owners who are individuals, corporations, trusts and estates that:

- at all relevant times are: (i) U.S. persons for purposes of the U.S. Internal Revenue Code of 1986, as amended, through the date hereof (the "Code"), (ii) non-residents of Canada for purposes of the Income Tax Act (Canada) (the "Income Tax Act") and (iii) residents of the United States for purposes of, and entitled to all the benefits under, the Canada-United States Income and Capital Tax Convention (1980), as amended by protocols through the date hereof (the "Tax Treaty");
- hold common stock as capital assets for purposes of the Code and capital property for the purposes of the Income Tax Act;
- deal at arm's length with, and are not affiliated with, the Company for purposes of the Income Tax Act; and
- do not and will not use or hold the common stock in carrying on a business in Canada.

Persons who satisfy the above conditions are referred to as "U.S. Shareholders."

The tax consequences of an investment in common stock by persons who are not U.S. Shareholders may differ materially from the tax consequences discussed in this section. The Income Tax Act contains rules relating to securities held by some financial institutions. This Annual Report does not discuss these rules, and holders that are financial institutions should consult their own tax advisors. This discussion is based upon the following, all as currently in effect:

- the Income Tax Act and Regulations under the Income Tax Act;
- the Code and Treasury Regulations under the Code;
- the Canada-United States Income Tax Convention (1980);
- the administrative policies and practices published by the Canada Revenue Agency, formerly Revenue Canada;
- all specific proposals to amend the Income Tax Act and the regulations under the Income Tax Act that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of this report;
- the administrative policies and rulings published by the U.S. Internal Revenue Service; and
- judicial decisions.

All of the foregoing is subject to change either prospectively or retroactively. This summary does not take into account estate or gift tax laws, the tax laws of the various provinces or territories of Canada or the tax laws of the various state and local jurisdictions of the United States or foreign jurisdictions.

This discussion summarizes the material U.S. federal and Canadian federal income tax considerations of the ownership and disposition of common stock. This discussion does not address all possible tax consequences relating to an investment in common stock. No account has been taken of your particular circumstances, and this summary does not address consequences peculiar to you if you are subject to special provisions of U.S. or Canadian income tax law (including, without limitation, dealers in securities or foreign currency, tax-exempt entities, banks, insurance companies or other financial institutions, persons that hold common stock as part of a "straddle," "hedge" or "conversion transaction," persons acquiring shares upon exercise of stock options or in other compensatory transactions, and U.S. Shareholders that have a "functional currency" other than the U.S. dollar or that own common stock through a partnership or other pass through entity). Therefore, you should consult your own tax advisor regarding the tax consequences of purchasing common stock.

Material U.S. Federal Income Tax Considerations

Subject to the discussion below regarding Foreign Personal Holding Company Rules, Passive Foreign Investment Company Rules and Controlled Foreign Corporation Rules, this section summarizes U.S. federal income tax consequences of ownership and disposition of the common stock.

U.S. Shareholders are generally required to include in income dividend distributions, if any, paid by the Company to the extent of the Company's current or accumulated earnings and profits attributable to the distribution as computed based on U.S. income tax principles. The amount of any cash distribution paid in Canadian dollars will be equal to the U.S. dollar value of the Canadian dollars on the date of distribution based on the exchange rate on such date, regardless of whether the payment is in fact converted to U.S. dollars, and without reduction for Canadian withholding tax. For a discussion of Canadian withholding taxes applicable to dividends paid by the Company, see "Material Canadian Federal Income Tax Considerations." You will generally be entitled to a foreign tax credit or deduction for U.S. federal income tax purposes in an amount equal to the Canadian tax withheld. To the extent distributions paid by the Company on the common stock exceed the Company's current or accumulated earnings and profits, they will be treated first as a return of capital up to your adjusted tax basis in the shares and then as capital gain from the sale or exchange of the shares.

Under current law the maximum rate of U.S. federal income tax on dividends paid to noncorporate U.S. holders is reduced to 15% for tax years from 2003 to 2008. In order to qualify for the reduced tax rates on dividends, a noncorporate shareholder must satisfy certain holding period requirements and must not be under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property. In some circumstances, this holding period may be increased. Additionally, the investment interest limitations under these reduced tax rates do not apply to dividends that a noncorporate shareholder elects to treat as investment income for purposes of Section 163(d)(4) of the Code.

Dividends received from a "qualified foreign corporation" are eligible for the reduced dividends tax rates for noncorporate shareholders. In general, a Canadian corporation entitled to all the benefits of the Tax Treaty will be treated as a qualified foreign corporation. In addition, a foreign corporation will be treated as a qualified foreign corporation with respect to any dividend paid

by that corporation if the stock with respect to which the dividend is paid is readily tradable on an established securities market in the United States. Regardless of the above rules, however, a foreign corporation will not be treated as a qualified foreign corporation if, for the taxable year of the corporation in which the dividend was paid, or the preceding taxable year, the corporation is classified for U.S. tax purposes as a passive foreign investment company ("PFIC"). Accordingly, any dividends paid by us in a year that we are a PFIC or in the next taxable year would not qualify for the reduced tax rates on dividends paid to noncorporate U.S. holders. As discussed below under "Passive Foreign Investment Company Rules," we have determined that we are a PFIC for U.S. federal income tax purposes and likely will continue to be a PFIC at least until we develop a source of significant operating revenues.

Dividends paid by the Company generally will constitute foreign source dividend income and "passive income" for purposes of the foreign tax credit, which could reduce the amount of foreign tax credits available to you. The Code applies various limitations on the amount of foreign tax credits that may be available to a U.S. taxpayer.

Because of the complexity of those limitations, you should consult your own tax advisor with respect to the availability of foreign tax credits.

Dividends paid by the Company on the common stock generally will not be eligible for the "dividend received" deduction available to corporate shareholders, because the Company is a foreign corporation. Note, however, that if a corporation owns at least 10 percent of the Company's stock and we are not a PFIC (see "Passive Foreign Investment Rules" below) for a particular year, a dividend received deduction may be available under code section 245 for any dividends paid by the Company to that shareholder.

If you sell the common stock, you generally will recognize gain or loss in an amount equal to the difference between the amount realized on the sale and your adjusted tax basis in the shares. Any such gain or loss will be long-term or short-term capital gain or loss, depending on whether the shares have been held by you for more than one year, and will generally be U.S. source gain or loss.

Dividends paid by the Company on the common stock generally will be subject to U.S. information reporting, and a backup withholding tax may apply unless you furnish the paying agent or middleman with a duly completed and signed Form W-9. You will be allowed a refund or a credit equal to any amount withheld under the U.S. backup withholding tax rules against your U.S. federal income tax liability, provided you furnish the required information to the Internal Revenue Service.

Passive Foreign Investment Company Rules

The passive foreign investment company, or PFIC, provisions of the Code can have significant tax effects on U.S. Shareholders. The Company will be classified as a PFIC for any taxable year if, after the application of certain "look through" rules, either:

- 75% or more of the Company's gross income is "passive income" which includes interest, dividends and certain rents and royalties; or
- the average quarterly percentage, by fair market value, of the Company's assets that produce or are held for the production of "passive income" is 50% or more of the fair market value of all the Company's assets.

Based upon our review of our financial data for the current and prior fiscal years, we have determined that we are currently a PFIC and likely will continue to be a PFIC at least until we develop a source of significant operating revenues.

Our classification as a PFIC for any period during a U.S. Shareholder's holding period for our shares, absent the holder's validly making one of the elections described below, would generally require the U.S. Shareholder to treat all "excess distributions" received during the holding period with respect to those shares as if those amounts were ordinary income earned ratably over the holding period. Excess distributions for this purpose would include all gain realized on the disposition of the shares as well as certain distributions made by us. Amounts treated under this analysis as earned in the year of the disposition or in any year before the first year in which we are a PFIC would be included in the holder's ordinary income for the year of the disposition. Additionally, amounts treated as earned in a year of distribution would be included in the holder's ordinary income for the year of the distribution. All remaining amounts would be subject to tax at the highest ordinary income tax rate that would have been applicable in the year in which such amounts were treated as earned, and interest would be charged on the tax payable with respect to such amounts. In addition, if we are classified as a PFIC, shares acquired from a decedent generally would not receive a "stepped-up" basis but would, instead, have a tax basis equal to the lower of the decedent's basis or the fair market value of those shares or ADSs on the date of the decedent's death.

The special PFIC tax rules described above will not apply to a U.S. Shareholder if the holder makes a qualified electing fund ("QEF") election to have us treated as a QEF for the first taxable year of the holder's holding period in which we are a PFIC and we provide certain information to the U.S. Shareholder. A U.S. Shareholder that makes a QEF election with respect to us will be currently taxable on its pro rata share of our ordinary earnings and net capital gain during any years we are a PFIC (at ordinary income and capital gains rates, respectively), regardless of whether or not distributions were received. An electing U.S. Shareholder's basis in the shares would be increased by the amounts included in income, and subsequent distributions by us of previously included earnings and profits generally would not be treated as a taxable dividend and would result in a corresponding reduction in basis. A U.S. Shareholder making such a timely election will not be taxed on our undistributed earnings and profits for any year that we are not a PFIC. Upon request by a U.S. shareholder, we will provide the information necessary for such holder to make the QEF election.

Alternatively, subject to specific limitations, U.S. Shareholders who actually or constructively own marketable shares in a PFIC may make an election under Section 1296 of the Code to mark those shares to market annually, rather than being subject to the above-described rules. Amounts included in or deducted from income under this mark-to-market election and actual gains and losses realized upon disposition, subject to specific limitations, will be treated as ordinary gains or losses. For this purpose, the Company believes that the Company's shares will be treated as "marketable securities" within the meaning of Section 1296(e)(1) of the Code.

As discussed above, dividends from a PFIC do not qualify for the reduced tax rates on dividends paid to non corporate U.S. Shareholders in effect for tax years 2003 through 2008.

You should consult your tax advisor with respect to how the PFIC rules affect your tax situation.

Controlled Foreign Corporation Rules

If more than 50% of the voting power or total value of all classes of the Company's shares is owned, directly or indirectly, by U.S. shareholders, each of which owns 10%-or-more of the total combined voting power of all classes of the Company's shares, the Company could be treated as a controlled foreign corporation ("CFC") under Section 957 of the Code. This classification would require such 10%-or-greater shareholders to include in income their pro rata shares of the Company's "subpart F Income," as defined in the Code. In addition, under Section 1248 of the Code, gain from the sale or exchange of shares by a U.S. Shareholder who is or was a 10%-or-greater shareholder while the Company was a CFC at any time during the five-year period ending with the sale or exchange will be ordinary dividend income to the extent of the Company's earnings and profits attributable to the shares sold or exchanged and not previously taxed under Subpart F.

The Company believes that it is not a CFC. However, the Company cannot assure you that the Company will not become a CFC in the future.

Material Canadian Federal Income Tax Considerations

This section summarizes the material anticipated Canadian federal income tax considerations relevant to the ownership and disposition of the common stock.

Under the Income Tax Act, assuming you are a U.S. Shareholder, and provided the common stock is listed on a prescribed stock exchange, which includes the Toronto Stock Exchange and the American Stock Exchange, you will generally not be subject to Canadian tax on a capital gain realized on an actual or deemed disposition of the common stock unless you alone or together with persons with whom you did not deal at arm's length owned or had rights to acquire 25% or more of the Company's issued shares of any class at any time during the sixty (60) month period before the actual or deemed disposition.

Dividends paid, credited or deemed to have been paid or credited on the common stock to U.S. Shareholders will be subject to a Canadian withholding tax under the Income Tax Act at a rate of 25% of the gross amount of the dividends. Under the Canada-United States Income Tax Convention (1980), the rate of withholding tax on dividends generally applicable to U.S. Shareholders who beneficially own the dividends is reduced to 15%. In the case of U.S. Shareholders that are corporations that beneficially own at least 10% of the Company's voting shares, the rate of withholding tax on dividends generally is reduced to 5%. United States limited liability companies ("LLCs") will not be entitled to these reduced rates. Shareholders that are partnerships will be subject to the 25% rate.

Canada does not currently impose any federal estate taxes or succession duties. However, if you die, there is a deemed disposition of the common stock held at that time for proceeds of disposition generally equal to the fair market value of the common stock immediately before your death. Capital gains realized on the deemed disposition, if any, will have the income tax consequences described above.

F. Dividends and paying agents

Not applicable.

G. Statement by experts

Not applicable.

H. Documents on display

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and the Company will thereafter file reports and other information with the SEC. You may read and copy any of the Company's reports and other information at, and obtain copies upon payment of prescribed fees from, the Public Reference Room maintained by the SEC at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549 and at the SEC's regional offices at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC at http://www.sec.gov.

The Company is required to file reports and other information with the securities commissions in each of the Canadian provinces. You are invited to read and copy any reports, statements or other information, other than confidential filings, that the Company files with such provincial securities commissions. These filings are also electronically available from the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) (http://www.sedar.com), the Canadian equivalent of the SEC's electronic document gathering and retrieval system.

As a foreign private issuer, the Company is exempt from the rules under the Securities Exchange Act of 1934, as amended, prescribing the furnishing and content of proxy statements to shareholders. The Company has included in this report certain information disclosed in the Company's Proxy Statement prepared under Canadian securities rules.

The Company will provide without charge to each person, including any beneficial owner, on the written or oral request of such person, a copy of any or all documents referred to above which have been or may be incorporated by reference in this report (not including exhibits to such incorporated information that are not specifically incorporated by reference into such information). Requests for such copies should be directed to the Company at the following address: 4620 Creekstone Drive, Suite 200, Durham, North Carolina 27703, Attention: Corporate Secretary.

I. Subsidiary information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Currently the Company's principal operations are located in the United States. Effective January 1, 2005 our functional currency is the U.S. dollar. Concurrent with the change in functional currency, the Company elected to change our reporting currency to the U.S. dollar. Therefore, when we refer to dollars, "$," we refer to "U.S. dollars," the legal currency of the United States. Historically, the functional currency of the Company had been the Canadian dollar. At December 31, 2005, the Company had approximately $13.1 million in cash, cash equivalents, and short-term investments. To date, derivative financial instruments have not been needed or used. Security of principal versus income historically governed investment decisions, with excess funds invested in short term, government backed securities or bankers acceptances.

At December 31, 2005, the Company held approximately CAD$2.6 million of its cash to fund certain development activities underway in Canada. At this time, the Company does not utilize derivative financial instruments. Should business conditions dictate, the Company may consider the use of derivative instruments in the future. However, security of principal versus income generation will continue to govern investment decisions.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the fiscal year ended December 31, 2005 covered by this Annual Report. Based on this evaluation, our principal executive officer and principal financial officer concluded that these disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the requisite time periods.

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control over financial reporting that occurred during this fiscal period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. RESERVED

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board has determined that Arthur Porter, MD, MBA, who serves on the Audit Committee, qualifies as an "audit committee financial expert" as defined by the rules of the U.S. Securities and Exchange Commission and is "independent" as defined by the current rules of the American Stock Exchange. See "Directors, Senior Management and Employees — Board Practices — Report on Corporate Governance."

ITEM 16B. CODE OF ETHICS

The Board has adopted a Code of Business Conduct and Ethics applicable to all officers, directors and employees of the Company, including the principal executive officer, the principal financial officer, the principal accounting officer or controller and persons performing similar functions. You can access the Code of Business Conduct and Ethics in the corporate governance section of our website under "Investor Relations" at http://www.adherex.com. See "Directors, Senior Management and Employees — Board Practices — Report on Corporate Governance."

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents the aggregate fees for professional services and other services rendered by our independent auditors in the fiscal year 2005, the six-month fiscal transition 2004 and the fiscal year 2004 (in Canadian dollars):

	Fiscal Year 2005	Six-Month Fiscal Transition 2004	Fiscal Year 2004
Audit Fees (1)	$ 70,090	$ 53,500	$ 224,165
Audit-Related Fees (2)	6,545	—	5,350
Tax Fees (3)	22,510	5,000	38,520
All Other Fees (4)	4,794	7,000	—
Total	CAD$103,939	CAD$ 65,500	CAD$268,035

(1) *Audit Fees* include fees for the standard audit work that needs to be performed each year in order to issue an opinion on the consolidated financial statements of the Company and to issue reports on the local statutory and regulatory financial statements. It also includes fees for services that can only be provided by the Company's auditor such as auditing of non-recurring transactions and application of new accounting policies, audits of significant and newly implemented system controls, pre-issuance reviews of quarterly financial results, consents and comfort letters and any other audit services required for U.S. Securities and Exchange Commission or other regulatory filings.

(2) *Audit-Related Fees* include fees for those other assurance services provided by auditors but not restricted to those that can only be provided by the auditor signing the audit report.

(3) *Tax Fees* include fees for periodic tax consultations and compliance services in various local, regional and national tax jurisdictions.

(4) *All Other Fees* include fees for services for the tax preparation to certain executives.

The Audit Committee has adopted procedures requiring Audit Committee review and approval in advance of all particular engagements for services provided by our independent auditors. Consistent with applicable laws, the procedures permit limited amounts of services, other than audit, review or attest services, to be approved by one or more members of the Audit Committee pursuant to authority delegated by the Audit Committee, provided the Audit Committee is informed of each particular service. All of the engagements and fees for the fiscal year ended December 31, 2005, the six-month fiscal transition 2004 and fiscal year 2004 were approved by the Audit Committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

There were no purchases made by or on behalf of the Company or any "affiliated purchaser" of the Company's equity securities.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

Our financial statements follow the signature page of this Annual Report.

ITEM 19. EXHIBITS

Exhibit No.	Description	Location
1.1	Articles of Amalgamation dated June 29, 2004	Exhibit 1.7 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
1.2	By-laws of the Company, as amended on November 2, 2004	Exhibit 1.9 to the Form 20-F/A Registration Statement (No. 001-32295) of Adherex, filed November 5, 2004
*4.1	Adherex Stock Option Plan	Exhibit 4.1 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
4.2	General Collaboration Agreement, dated as of February 26, 2001, by and between Adherex Technologies Inc. and McGill University LLP	Exhibit 4.2 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
4.3	Exclusive License Agreement, dated as of April 13, 2001, by and between Rutgers, the State University of New Jersey, and Oxiquant, Inc.	Exhibit 4.3 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
4.4	Amendment No. 1, dated as of November 19, 2002, by and between Rutgers, the State University of New Jersey, and Oxiquant, Inc.	Exhibit 4.4 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
4.5	Exclusive License Agreement, dated as of September 26, 2002, by and between Oregon Health & Science University and Oxiquant, Inc.	Exhibit 4.5 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
4.8	Lease Agreement, dated as of March 8, 2004, by and between Realmark-Commercial, LLC and Adherex, Inc.	Exhibit 4.8 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
4.9	Registration Rights Agreement, dated as of December 19, 2003, by and between Adherex Technologies Inc. and HBM BioVentures (Cayman) Ltd.	Exhibit 4.9 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
*4.10	Executive Employment Agreement, dated as of December 12, 2001, by and between Adherex Technologies Inc. and Robin J. Norris	Exhibit 4.10 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
*4.11	Executive Employment Agreement, dated as of January 27, 2003, by and between Adherex Technologies Inc. and D. Scott Murray	Exhibit 4.11 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004

Exhibit No.	Description	Location
*4.12	Executive Employment Agreement, dated as of February 19, 2003, by and between Adherex Technologies Inc. and William P. Peters, MD, PhD, MBA	Exhibit 4.12 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
*4.13	Executive Employment Agreement, dated April 21, 2004, by and between Adherex, Inc. and James A. Klein, Jr.	Exhibit 4.13 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
*4.14	Employment Agreement, dated as of August 9, 2004, by and between Adherex, Inc. and Rajesh K. Malik	Exhibit 4.14 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
4.16	Form of Common Stock Warrant, dated November 20, 2002	Exhibit 4.16 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
4.18	Form of Insider Common Stock Warrant, dated June 23, 2003	Exhibit 4.18 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
4.19	Form of Non-Insider Common Stock Warrant, dated June 23, 2003	Exhibit 4.19 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
4.21	Form of Common Stock Warrant, dated December 3, 2003	Exhibit 4.21 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
4.22	Common Stock Warrant issued to HBM BioVentures (Cayman) Ltd., dated December 3, 2003	Exhibit 4.22 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
4.24	Form of Common Stock Warrant, dated December 19, 2003	Exhibit 4.24 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
4.25	Common Stock Warrant issued to The Vengrowth Advanced Life Sciences Fund Inc., dated December 19, 2003	Exhibit 4.25 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
4.26	Common Stock Warrant issued to HBM BioVentures (Cayman) Ltd., dated December 19, 2003	Exhibit 4.26 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
4.27	Form of Common Stock Warrant, dated May 20, 2004	Exhibit 4.27 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
*4.28	Employment Agreement, dated as of October 25, 2004, by and between Adherex, Inc. and Brian E. Huber, Ph.D.	Exhibit 4.28 to the Form 20-F/A Registration Statement (No. 001-32295) of Adherex, filed November 5, 2004

Exhibit No.	Description	Location
4.29	Second Amendment to Lease Agreement dated September 14, 2004 between Realmark Commercial LLC and Adherex, Inc.	Exhibit 4.29 to the Form 20-F/A Registration Statement (No. 001-32295) of Adherex, filed November 5, 2004
4.30	Development and License Agreement dated July 14, 2005 between Adherex Technologies Inc. and Glaxo Group Limited**	Exhibit 4.30 to Form 6-K of Adherex, filed July 22, 2005
*4.31	Executive Employment Agreement, dated as of October 3, 2005, by and between Adherex, Inc. and Jeffery Solash	Filed herewith
4.32	Sublease Agreement, dated as of August 31, 2005, by and between Biostratum, Inc. and Adherex, Inc. (Englert)	Filed herewith
4.33	Sublease Agreement, dated as of August 31, 2005, by and between Biostratum, Inc. and Adherex, Inc. (Creekstone)	Filed herewith
4.34	Form of Common Stock Warrant, dated July 20, 2005	Filed herewith
4.35	Form of Placement Agent Common Stock Warrant, dated July 20, 2005	Filed herewith
4.36	Amendment No. 1 to Development and License Agreement dated December 20, 2005 between Glaxo Group Limited and Adherex Technologies Inc.**	Filed herewith
4.37	Amended and Restated Stock Option Plan	Filed herewith
4.38	Partial Assignment of Lease and Lease Amendment Number Two dated August 31, 2005	Filed herewith
4.39	Highwoods Realty Limited Partnership Office Master Lease (Creekstone)	Filed herewith
4.40	Consent to Sublease dated August 31, 2005 among Highwoods Realty Limited Partnership, BioStratum, Inc. and Adherex, Inc.	Filed herewith
8	Subsidiaries	Exhibit 8 to the Form 20-F Registration Statement (No. 001-32295) of Adherex, filed September 17, 2004
12.1	Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
12.2	Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
13	Certification of Chief Executive Officer and Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
14	Consent of PricewaterhouseCoopers LLP	Filed herewith

* Indicates a management contract or compensatory plan.

** The Company has requested confidential treatment with respect to certain portions of this exhibit. Those portions have been omitted from this exhibit and filed separately with the U.S. Securities and Exchange Commission.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

ADHEREX TECHNOLOGIES INC.

By: /s/ JAMES A. KLEIN, JR.
James A. Klein, Jr.
Its: **Chief Financial Officer**

Dated: March 30, 2006

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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 consolidated statements of operations, cash flows and shareholders' equity for the year ended December 31, 2005, the six months ended December 31, 2004, the years ended June 30, 2004 and 2003 and, cumulatively, 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 with 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, the consolidated financial statements referred to above 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 their operations and their 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 Note 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.

/s/ PricewaterhouseCoopers LLP

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 Shareholders' 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 Shareholders' 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)

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

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 assumption 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-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 ("CAD") 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.

Adherex Technologies Inc.
(a development stage company)
Notes to the Consolidated Financial Statements (continued)
U.S. dollars and shares in thousands, except per share information

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.

Adherex Technologies Inc.
(a development stage company)
Notes to the Consolidated Financial Statements (continued)
U.S. dollars and shares in thousands, except per share information

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.

Adherex Technologies Inc.
(a development stage company)
Notes to the Consolidated Financial Statements (continued)
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 using 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 carrying 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 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 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 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 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.

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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.

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.

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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).

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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.

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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

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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.

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			

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:

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

	Number of Options	Exercise Price in Canadian Dollars	
		Range	Weighted-average
Outstanding at June 30, 2002	741	CAD$ 1.6375 -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	CAD$ 1.6375 -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	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

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

	Number of Options	Exercise Price in U.S. Dollars	
		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

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Range of Exercise Price in U.S. Dollars	Options Outstanding: Number Outstanding at December 31, 2005	Options Outstanding: Weighted-average Exercise Price	Options Outstanding: Weighted-average Remaining Contractual Life (years)	Options Exercisable: Number Outstanding at December 31, 2005	Options Exercisable: Weighted-average Exercise Price	Options Exercisable: 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	Years Ended June 30, 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	Years 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

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.

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12. Capital and Operating Lease Commitments

The Company has entered into operating lease agreements for the office and laboratory facilities located in the U.S. 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 has 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 has 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.

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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 $5,000 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 $70,000 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 $15,000 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 $100,000 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.

Adherex Technologies Inc.
(a development stage company)
Notes to the Consolidated Financial Statements (continued)
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)

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.

Adherex Technologies Inc.
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Notes to the Consolidated Financial Statements (continued)
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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.

Adherex Technologies Inc.
(a development stage company)
Notes to the Consolidated Financial Statements (continued)
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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.

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.

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Notes to the Consolidated Financial Statements (continued)
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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)

Adherex Technologies Inc.
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Notes to the Consolidated Financial Statements (continued)
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

(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

Adherex Technologies Inc.
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(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 January 1, 2006.

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. 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 and the fair value of the underlying stock 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 on or 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)

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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.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") dated as of this **3rd** day of **OCTOBER 2005** (the "Effective Date"), by and between **ADHEREX, INC.** (the "Company"), a wholly owned subsidiary of Adherex Technologies Inc. ("AHX"), and **JEFFREY SOLASH, PH.D.**, an individual residing at the address set forth on the signature page hereof ("Employee").

1. **Duties.** While employed by the Company, Employee will be employed in the position of **Chief Licensing Officer** of the Company and of AHX, and, as such, Employee agrees to faithfully perform the duties of the position of Chief Licensing Officer and to perform such other duties of an executive, managerial or administrative nature as shall be reasonably specified and designated from time to time by the Chief Executive Officer ("CEO") of the Company. Employee agrees to perform his duties and responsibilities at the Company diligently and to the best of his ability, and further agrees to devote all of his business time and efforts to the performance of duties hereunder. Employee further agrees not to be employed by any entity or other third party while employed by the Company without first obtaining the advance written consent of the Company. Notwithstanding the foregoing and subject to the Employee's obligations herein and any applicable Company policies, the Employee shall be permitted to make personal investments, perform reasonable volunteer services and with the prior written consent of the Company, serve as an advisor to or become a member of the Scientific Advisory Board of other companies, provided those companies are not engaged in the Company's Business, as defined in the IP Agreement (as defined below), or such service would not otherwise create a conflict of interest.

2. **Compensation**. In consideration of his services to the Company, Employee will be compensated as follows:

(a) Base Salary. Employee will be paid an annual base salary of One Hundred Twenty-Five Thousand Dollars (USD $125,000), less any withholdings required by law or properly requested by Employee (the "Base Salary"). The Company will pay Employee the Base Salary on its regularly scheduled paydays, in accordance with its regular payroll practices and procedures. You will be eligible for annual salary increases at the discretion of the CEO.

(b) Signing Bonus. After Employee has executed this Agreement and any other required agreement(s), Employee will be paid a one-time lump sum signing bonus of Ten Thousand Dollars (USD $10,000) (the "Signing Bonus"). The Signing Bonus is subject to any withholdings required by law and/or properly requested by Employee. If for any reason you do not complete 90 days of employment at AHX, you will be responsible to repay to AHX the Signing Bonus.

(c) Discretionary Bonus. In addition to the Base Salary and Signing Bonus, the Company in its sole discretion may award Employee an annual bonus of no more than Thirty Thousand Dollars (USD $30,000) annually (the "Annual Bonus"). The Company will have the sole discretion and authority to determine Employee's eligibility for and the amount of the Annual Bonus and the award of such Annual Bonus will be dependent upon performance objectives established by the CEO. The Annual Bonus is subject to any withholdings required by law and/or properly requested by Employee.

(d) Stock Option Grant. Upon the presentation of a strategic plan for monetizing the AHX intellectual property portfolio satisfactory to the CEO no later than 90 days from the Effective Date, subject to the approval of its Board of Directors (the "Board"), AHX will grant Employee an option to purchase up to Seventy-Five Thousand (75,000) shares of AHX's common stock (the "Option"). The Option will be subject to the terms and conditions of the AHX Stock Option Plan (the "Plan") and a separate stock option agreement between AHX and Employee. Shares subject to the Option will have an exercise price equal to the fair market value on the date of grant, as determined by the Board. The shares, subject to the option, shall vest annually in equal one-third installments over the next three years on the anniversary of your hire date for so long as Employee remains employed by the Company. You will be eligible for additional awards of stock options at the discretion of the Board and the CEO based upon satisfactory performance and successful completion of specified annual performance objectives. It is anticipated that you would be eligible for a further option to purchase up to 50,000 shares of AHX's common stock in the second year of your employment, at the discretion of the Board and the CEO, based upon satisfactory performance and successful completion of specified annual performance objectives.

(e) Business Expenses. The Company will reimburse Employee for all reasonable expenses incurred by Employee that are directly related to the business of the Company, provided that Employee complies with the Company's policies and procedures for reimbursement or the advance of business expenses.

3. Benefits. While employed by the Company, Employee will receive such other benefits as are provided from time to time to other similarly-situated employees of the Company. All such benefits are subject the terms and conditions of the plan documents by which such benefits are provided, and are subject to change by the Company at any time, with or without advance notice as long as such change applies equally to all similarly-situated employees.

4. Vacation and Paid Holidays. You will be eligible for vacation in accordance with the Company's vacation policy. You will be entitled to take twenty (20) days of paid vacation annually. In addition, Employee will be entitled to be paid for all holidays recognized in accordance with Company policy.

5. Confidential Information and Restrictive Covenants. As a condition of Employee's employment with the Company, Employee is required to sign the Confidentiality, Intellectual Property and Non-Competition Agreement attached as Exhibit A hereto (the "IP Agreement"), which includes Employee's agreement to refrain from disclosing the Company's confidential information and to refrain from engaging in certain competitive activities after any termination of employment with the Company. The IP Agreement is fully incorporated into this Agreement by reference, and a breach of the IP Agreement will be construed as a breach of this Agreement.

6. Conflicts of Interest. You are subject to the Company's conflict of interest requirements and policies, and are responsible for recognizing and avoiding any and all circumstances that may give rise to an actual conflict of interest or give the appearance of a conflict of interest situation.

7. Termination of Employment. Employee's employment with the Company is at-will, meaning that either Employee or the Company can terminate the employment relationship at any time, for any or no reason, subject to the following provisions:

(a) Termination for Cause. Employee's employment with the Company may be terminated for "Cause" at any time and without advance notice. If terminated for Cause, Employee will only be entitled to receive payment of any wages and vacation pay earned or accrued to the date of termination. For purposes of this Agreement, "Cause" means Employee's: (1) material breach of the terms of this Agreement or the IP Agreement; (2) failure to diligently and properly perform his duties and responsibilities, or to comply with any policies and directives of the Company or the Board; (3) dishonest or illegal action (including, without limitation, embezzlement) or any other action whether or not dishonest or illegal by Employee that is materially detrimental to the interest and well-being of the Company, including, without limitation, harm to its reputation; (4) failure to fully disclose any material conflict of interest he may have with the Company in a transaction involving the Company which conflict is materially detrimental to the interest of the Company; or (5) your conviction of (i) any felony or (ii) any misdemeanor or other crime of moral turpitude (other than a minor traffic offense).

(b) Termination upon Death or Disability. Employee's employment with the Company will terminate immediately in the event of his death or permanent disability. For purposes of this Agreement, permanent disability means that Employee is unable to perform the essential functions of his position, with or without a reasonable accommodation, for more than sixty (60) consecutive days or ninety (90) days in any 12-month period. If terminated pursuant to this Section 7(b), Employee or his successor(s) will only be entitled to receive payment of any wages and vacation pay earned or accrued to the date of termination.

(c) Resignation by Employee. Employee may resign employment with the Company upon thirty (30) days' advance written notice. If Employee fails to provide at least thirty (30) days advance notice of resignation, Employee will forfeit payment for any accrued, unused vacation pay. The Company reserves the right in its sole discretion to pay Employee's then-current Base Salary for all or a part of such notice period, in lieu of Employee's continued employment during the notice period. If Employee resigns his employment with the Company, Employee will be entitled to receive payment of any wages earned through the termination date and accrued vacation if Employee gives thirty (30) days notice as set forth above.

(d) Termination by the Company Without Cause. Employee's employment with the Company may be terminated at any time without Cause. The termination of Employee's employment by the Company will be deemed to be "Without Cause" if Employee is terminated for any reason other than Sections 7(a) through (c) of this Agreement.

8. Payments upon Termination.

(a) Accrued Compensation. If Employee's employment with the Company is terminated by either party for any reason, Employee will receive payment of any wages and vacation pay earned or accrued to the date of termination; provided, however, that if Employee resigns his employment with the Company, he must provide the notice specified in Section 7(c) hereof in order to receive payment for any accrued, unused vacation time.

(b) Severance Benefits. In addition to any accrued compensation, if Employee's employment is terminated by the Company Without Cause, the Company will provide Employee with the following severance benefits, subject to the conditions described below.

(1) If Employee is terminated by the Company Without Cause, the Company will continue paying Employee's then-current Base Salary and health insurance benefits for the lesser of (i) for a period of three (3) months after the termination of Employee's employment; or (ii) until the employee has accepted alternative employment (the "Benefits Period"). If the Company cannot allow Employee to continue his participation in its health insurance benefit plans during the Benefits Period, the Company agrees to reimburse Employee for his COBRA premiums during the Benefits Period (at a level of coverage equivalent to that in effect immediately prior to the termination).

(2) In order to receive any portion of the severance benefits described in this Section 8(b), Employee will be required to first execute a release of all claims against the Company, in form reasonably acceptable to the Company. In addition, to continue receiving the severance benefits, Employee must also comply with any post-termination obligations to the Company as a result of the IP Agreement.

9. Notices. Any notice or other communication required or permitted hereunder must be made in writing and shall be delivered personally, sent by facsimile transmission or sent by certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally, sent by facsimile transmission or, if mailed, five days after the date of deposit in the United States mail as follows:

If to the Company, to:

Adherex, Inc.
4620 Creekstone Drive, Suite 200
Durham, North Carolina 27703
Attention: General Counsel

If to the Employee, at the address set forth on the signature page hereof.

Any party may by notice given in accordance with this Section 9 to the other parties hereto designate another address or person for receipt by such person of notices hereunder.

10. Entire Agreement. This Agreement (including any exhibits attached hereto) contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto, including without limitation any agreements that may have been entered into between the Company and Employee.

11. Waivers and Amendments. This Agreement may only be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, with a writing signed by all parties hereto, or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege nor any single or partial exercise of any such right, power or privilege, preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

12. Governing Law; Venue. This Agreement will be governed by and construed in accordance with the laws of the state of North Carolina, without regard to conflicts of law principles. The parties further agree that the state or federal courts sitting in Durham County, North Carolina shall have the sole and exclusive jurisdiction to hear any dispute(s) arising out of this Agreement (including any exhibits attached hereto).

13. Assignment. This Agreement, and Employee's rights and obligations hereunder, may not be assigned by Employee; any purported assignment by Employee in violation hereof shall be null and void. In the event of any sale, transfer or other disposition of all or substantially all of the Company's assets or business, whether by merger, consolidation or otherwise, Employee agrees that the Company may assign this Agreement and its rights and obligations hereunder to a successor in interest.

14. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, permitted assigns, heirs, executors and legal representatives.

15. Counterparts. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original but all such counterparts together shall constitute one and the same instrument. Each counterpart may consist of two copies hereof each signed by one of the parties hereto.

[*Signature page follows*]

IN WITNESS WHEREOF, the parties hereto have executed this Employment Agreement as of the day and year first above written.

ADHEREX, INC.

By: /s/ William P. Peters

Name: Dr. William P. Peters, MD PhD MBA
Title: Chief Executive Officer

EMPLOYEE:

/s/ Rochelle Cupelli

Witness

/s/ Jeffrey Solash

Employee: Jeffrey Solash, Ph.D.
797 River Bend Drive
Rochester Hills, MI 48307

Adherex, Inc.

EXHIBIT A

CONFIDENTIALITY, INTELLECTUAL PROPERTY AND NONCOMPETITION AGREEMENT

THIS CONFIDENTIALITY, INTELLECTUAL PROPERTY AND NONCOMPETITION AGREEMENT (the "Agreement") dated this 3rd day of **October 2005** is made between Adherex, Inc. (the "Company") and **JEFFREY SOLASH, PH.D.** ("Employee").

The parties hereto agree that it may be necessary for the Company to disclose to Employee from time to time certain confidential and proprietary information concerning the products and processes and technology developed by the Company and/or its affiliates or subsidiaries which the Company wishes to protect along with its trade secrets, technical expertise, business knowledge, procedures and systems and all other confidential and proprietary information, together with proprietary and other information of a confidential nature provided by third parties, all of which is not generally available to the public, the unauthorized disclosure of which would cause irreparable harm to the Company, its parent Adherex Technologies Inc., its affiliates or subsidiaries.

In consideration of my employment by the Company, the undersigned and the Company agree as follows:

1. Definition of "Information". For the purposes of this Agreement, "Information" shall include, without limitation, all or any part of the corporate, strategic or marketing plans, financial information, product information, customer information, and other information relating to the business of the Company, its affiliates or subsidiaries, all research and development activities, all unpublished know-how, technical data, techniques, records, formulae, process, designs, sketches, photographs, plans, drawings, specifications, samples, reports, studies, findings, inventions and ideas, whether patentable or not, whether they be trade secrets or not and whether they be in written, graphic or oral form, that are now or hereafter owned or acquired by Company, all of which are of a confidential and/or proprietary nature concerning the development, testing, production and marketing of, and consulting in the area of products and processes and technology developed by Company, its affiliates or subsidiaries. Any Information which is communicated to any person external to the Company and/or its affiliates or subsidiaries shall be stamped with the words "PROTECTED" or "CONFIDENTIAL" or other such identifying mark prior to its disclosure to such person.

2. Nondisclosure. Employee agrees to hold in trust and confidence all Information and to use and communicate any Information only in the performance of his work for the Company to such authorized employees, subcontractors and others as are required by their duties to have knowledge thereof or for such other purposes and to such persons as are authorized by the Company in writing.

3. Assignment of Intellectual Property Rights. All improvements, inventions, know-how and discoveries, all Information and technology, and all patents or patent applications arising out of or relating to the Information whether developed by the Employee or not during the term of the Employee's employment are the exclusive property of Company, its affiliates or

subsidiaries. The Company, its affiliates or subsidiaries alone shall have the right to apply for, prosecute and obtain patents, copyrights, trademarks or industrial design protection in any or all countries of the world in respect of any and all such improvements, inventions, know-how and discoveries and the Employee agrees to disclose, deliver and assign to the Company, its affiliates or subsidiaries, as the case may be, all such improvements, inventions, know-how and discoveries whether patentable or not and agrees at any time to execute when requested any applications, transfers, assignments and other documents as necessary for the purpose of confirming the Company's, its affiliates' or subsidiairies' title, as the case may be, to any such improvements, inventions, know-how and discoveries, or for applying for prosecution and obtaining patents in any country with respect thereto. Employee agrees to cooperate and assist fully in the prosecution of any such application. Any copyrightable materials generated or developed by Employee while employed by the Company, including but not limited to, computer programs and related documentation, belong to the Company and Employee hereby assigns to the Company all interest and ownership in such copyright as and when created.

4. Restrictive Covenants.

(a) Noncompetition; Nonsolicitation. While employed by the Company and for six months after the termination of his employment with the Company by either party, for any reason whatsoever, Employee will not, without the prior written consent of the Company:

(1) provide senior management services to, manage, control, or participate in the management or control of any direct competitor of the Company that is located in the Restricted Territory (as defined below) and is engaged in the Company's Business (as defined below);

(2) solicit or attempt to solicit for the purpose of selling products comparable to or in competition with those products being developed or sold by the Company to any customers or clients of the Company with whom Employee had business contacts on behalf of the Company during his employment with the Company;

(3) interfere or attempt to interfere with any contracts or agreements that the Company has with any collaborators, customers, vendors or suppliers; and/or

(4) solicit any employees of the Company (i) to resign their employment with the Company; (ii) to violate any duties owed to the Company; or (iii) breach any agreements with the Company.

Employee agrees not to engage in any of the foregoing activities set out in this Section 4(a) directly or indirectly, acting alone or as a director, employee, agent, consultant, member of a partnership, firm, company or other entity or as a holder of or investor in more than 2% of any security of any class of any company or other business entity.

(b) Restricted Territory. For purposes of this Agreement, the "Restricted Territory" shall mean the greater metropolitan areas of:

(i) Boston, MA;

(ii) New York, NY;

(iii) Philadelphia, PA;

(iv) Princeton, NJ;

(v) Indianapolis, IN;

(vi) Groton, CT;

(vii) Chicago, IL;

(viii) Seattle, WA; and

(ix) any locality within a thirty-five mile radius of Raleigh/Durham, North Carolina and/or Bethesda, MD.

(c) Company's "Business." The parties hereto agree that the Company's "Business" is researching, developing, marketing and selling pharmaceutical products and therapies related to the cadherin platform.

(d) Enforceability. The parties hereto agree that in the event that the length of time, the geographic area or prohibited activities set forth in this Section 4 shall be deemed too restrictive in any court proceeding, that the court shall reduce such restrictions to those which it deems reasonable and enforceable under the circumstances.

5. Return of Company Property. Upon demand by the Company or no later than the termination of his employment, Employee agrees to immediately return to the Company any Information or other Company property in his possession. Such Information and any other Company property will be returned to the Company in the same condition as when provided to Employee, reasonable wear and tear excepted. Employee further agrees to allow the Company to inspect any documents or work produced relating to the Information that are in the possession or control of the Employee. The Employee agrees that unless authorized by the Company or as necessary in performing his job duties and responsibilities, he will not copy the Information.

6. Injunctive Relief. In the event that Employee breaches the provisions of Section 1 through 5 of this Agreement, the parties hereto agree that such breach could not be adequately remedied by monetary damages. Therefore, the parties agree that in addition to any other remedies available for such breach, the Company will be entitled to injunctive relief for Employee's breach or threatened breach of Sections 1 through 5 of this Agreement in order to prevent or restrict any further breach or threatened breach. A failure by the Company to enforce any provision of this Agreement does not constitute a waiver of any of its rights and does not release the Employee of any responsibility for performance under this Agreement.

7. Limitations. The Company agrees that all the obligations of confidentiality and non-disclosure terminate when the Employee can establish with documentary proof that the relevant part of the Information:

(a) was in the public domain at the time of the disclosure to the Employee by the Company, its affiliates or subsidiaries,

(b) entered the public domain through no fault of the Employee,

(c) was in the Employee's possession free of any obligation of confidentiality before disclosure by the Company, its affiliates or subsidiaries to the Employee, or

(d) was disclosed to Employee in good faith by a third party which has the right to make such disclosure,

provided that the Employee notifies the Company in writing within 10 days of receipt of the Information where the exemptions under (c) and (d) apply.

8. Survival. The obligations of Employee pursuant to Sections 1 through 5 of this Agreement will continue in full force and effect notwithstanding termination of the employment of the Employee.

9. No Other Agreements. Employee hereby advises the Company that unless described in writing on Schedule "A" attached hereto, he is not bound by any other confidentiality, non-disclosure, noncompetition, or non-solicitation agreements. Employee further agrees not to become a party to any such agreement with others during his employment with the Company unless otherwise agreed to by the Company. The Employee further advises the Company that there are no patents, patent applications or other inventions made by the Employee prior to his employment with the Company unless any are specifically listed on Schedule "B" hereto. If no Schedules are attached to this Agreement, then there are no such agreements or patents outstanding.

10. Governing Law; Venue. The parties hereto agree that this Agreement is to be interpreted and governed by the laws of the state of North Carolina. The parties further agree that the state or federal courts sitting in Durham County, North Carolina shall have the sole and exclusive jurisdiction to hear any dispute(s) arising out of this Agreement.

11. Severability. The various sections of this Agreement are severable and the invalidity of one does not affect the enforceability of the other provisions of this Agreement.

12. Miscellaneous. For ease of interpretation, this Agreement is to be read with all changes in gender and number as the circumstances require and the Agreement is binding upon and available to the benefit of both parties, their personal representatives, successors, affiliates, subsidiaries and assigns. Employee expressly agrees that the Company may assign its rights and obligations hereunder to any successor in interest. Any notice under this Agreement should be delivered to the Company's head office and the Employee at his home address.

[*Signature page follows*]

IN WITNESS WHEREOF the parties have executed this Confidentiality and Intellectual Property on the day and year first written above.

ADHEREX, INC.

By: /s/ William P. Peters

Name: Dr. William P. Peters, MD PhD MBA
Title: Chief Executive Officer

/s/ Rochelle Cupelli

Witness

/s/ Jeffrey Solash

Employee: Jeffrey Solash, Ph.D.
797 River Bend Drive
Rochester Hills, MI 48307

STATE OF NORTH CAROLINA

SUBLEASE AGREEMENT

COUNTY OF DURHAM

THIS AGREEMENT OF SUBLEASE (hereinafter referred to as "Sublease") made as of this 31st day of August, 2005, by and between ADHEREX, INC., a Delaware corporation (hereinafter referred to as "Sublessor"), and BIOSTRATUM, INC., a Delaware corporation, having a principal place of business and mailing address of 2300 Englert Drive, Suite G, Durham, NC 27713 (hereinafter referred to as "Sublessee").

WITNESSETH:

WHEREAS, on April 9, 2004, Adherex, Inc., as Lessee, entered into a lease which lease was amended by First Amendment to Lease Agreement dated July 27, 2004, and by Second Amendment to Lease Agreement dated September 14, 2004 (hereinafter collectively referred to as the "Master Lease") with Realmark-Commercial LLC, as Lessor, having an office at 2350 N. Forest Rd., Getzville, NY 14608 (hereinafter referred to as the "Master Lessor"), which lease (as amended) concerns 7,636 rentable square feet of space in the building or project known as Commercial Park West, 2300 Englert Dr., Suite G, Durham, North Carolina 27713 ("Premises"); and

WHEREAS, Sublessee desires to sublease the entire Premises from Sublessor, and Sublessor desires to sublease the entire Premises to Sublessee.

NOW, THEREFORE, in consideration of the rents and covenants hereinafter set forth to be paid and performed by Sublessee, Sublessor does hereby demise, lease and let unto Sublessee, and the Sublessee does hereby lease and take from Sublessor upon the terms and conditions hereinafter set forth the following described subleased premises (hereinafter referred to as the "Subleased Premises"):

Approximately 7,636 rentable square feet, shown as Suite G on the drawing attached hereto as Exhibit A and incorporated herein by reference.

1. RELATIONSHIP TO MASTER LEASE. The Sublease and all its terms, covenants and provisions are and each of them is subject and subordinate to (i) the Master Lease (a copy of which is attached hereto as Exhibit B and made a part hereof by reference) under which Sublessor is in control of the Subleased Premises; (ii) the rights as contained in the Master Lease of the owner or owners of the Premises and/or the land and building of which the Subleased Premises are a part; (iii) all rights of Master Lessor as contained in the Master Lease; and (iv) to any and all mortgages or encumbrances now or hereafter affecting the Subleased Premises to which the Master Lease would be subordinated. Sublessee expressly agrees that, if Sublessor's tenancy, control or right to possession shall terminate by expiration or any other cause not due to the fault of Sublessor, this Sublease shall thereupon immediately cease and

terminate and Sublessee shall give immediate possession to Sublessor; provided however, that the liability of the Sublessee to the Sublessor or the liability of the Sublessor to the Sublessee for termination caused by the applicable party's default under this Sublease shall not be discharged by reason of such termination.

2. PERFORMANCE OF MASTER LEASE TERMS. With respect to the Subleased Premises, Sublessee shall receive all benefits which accrue to Sublessor under the Master Lease as it relates to the Subleased Premises. Sublessee hereby expressly, and without condition or reservation, agrees to assume the obligation for performance of all Sublessor's responsibilities under the Master Lease with respect to the Subleased Premises and, during the term hereof, to be subject to and bound by, and to faithfully and punctually perform and comply with all of the covenants, conditions, stipulations, restrictions and agreements contained therein except as expressly excluded herein. Sublessee hereby agrees to indemnify and hold harmless Sublessor from and against any loss, claim, damage, expense or injury (including reasonable attorney's fees and court costs) which Sublessor may incur as a result of Sublessee's failure to perform such obligations on behalf of Sublessor. Sublessor covenants and agrees that if and so long as the Sublessee pays the Rent (as defined below), and fully, faithfully and punctually observes the covenants and conditions hereof, Sublessee shall quietly enjoy the Subleased Premises, subject, however, to the terms of this Sublease and the Master Lease.

3. TERM. The term of this Sublease shall commence on September 1, 2005 ("Commencement Date"), and expire thirty-one (31) months after the Commencement Date, that is, March 31, 2008 (hereinafter, the "Sublease Term").

4. RENT. During each month of the term of this Sublease, beginning January 1, 2006, Sublessee hereby agrees to pay to Sublessor Base Rent in the same amount as is owed by Sublessor under the Master Lease. No Rent (as hereinafter defined) shall be payable hereunder until January 1, 2006.

In addition to Base Rent, Sublessee shall pay its proportionate share of real estate taxes and operating expenses and other charges passed through to Sublessor under the Master Lease (all, collectively, "Additional Rent") together with any other charges and payments required of Sublessee hereunder. Sublessee shall pay Sublessor the Base Rent and Additional Rent (collectively, "Rent"), without offset or deduction, prior notice or demand, in advance on the first day of each calendar month of the term hereof beginning on January 1, 2006. If the Commencement Date is a day other than the first of a month, Rent for the month in which the Commencement Date occurs shall be prorated. Rent shall be paid to Sublessor at 4620 Creekstone Drive, Suite 200, Durham, NC 27703. Where permitted by applicable law, if any payment of Rent is not paid when due, Sublessee shall pay the Sublessor upon demand, as a late charge, an amount equal to five percent (5%) of each Rent installment, or any part thereof, which is overdue for more than ten (10) days.

During the period of the Sublease Term from September 1, 2005, to December 31, 2005, the Sublessee shall have no obligation to pay Rent. Utilities for the period from September 1, 2005, to December 31, 2005, shall be paid by the Sublessor in an amount not to exceed $1.50 per

square foot per year ($954.00 per month). Any excess over $1.50 per square foot per year shall be the responsibility of the Sublessee. The term “Utilities” shall include gas, electricity, water and sewer services to the Sublease Premises as provided in Section 7 of the Master Lease.

5. USE. Sublessee shall use the Subleased Premises for general office use and laboratory use only and at all times in compliance with the Master Lease.

6. CONDITION OF PREMISES.

A. SUBLESSEE (i) ACCEPTS THE SUBLEASED PREMISES IN THEIR “AS IS” CONDITION ON THE COMMENCEMENT DATE HEREOF, (ii) ACKNOWLEDGES THAT SUBLESSOR HAS MADE AND MAKES NO REPRESENTATIONS OR WARRANTIES CONCERNING THE CONDITION OF THE SUBLEASED PREMISES OR THEIR FITNESS FOR THE USE INTENDED BY SUBLESSEE, AND (iii) AGREES THAT TO THE MAXIMUM EXTENT PERMITTED BY LAW THE SUBLESSEE WAIVES ANY CLAIM IT HAS, MAY HAVE, OR OUGHT TO HAVE AGAINST THE SUBLESSOR, BASED ON OR ARISING OUT OF THE CONDITION OF THE SUBLEASED PREMISES. Sublessee shall, at all times during the term hereof, keep and maintain the Subleased Premises in good condition and repair as required by the Master Lease, provided the Sublessee has no obligation to repair or restore the Subleased Premises to a better state of condition or repair than as of the Commencement Date.

B. Sublessor shall deliver the Subleased Premises to the Sublessee in accordance with the provisions of this paragraph.

C. Sublessee shall bear all costs associated with: Upfit in accordance with the Plans and Specifications attached hereto as Exhibit C.

D. Sublessor shall bear costs associated with: None

7. INSURANCE AND INDEMNIFICATIONS. At all times during the term of this Sublease, Sublessee shall, at Sublessee’s expense, keep in effect (i) a policy of Comprehensive General Liability insurance with a company and in amounts as required under the Master Lease, which policy shall name Sublessor and Master Lessor as additional insureds; (ii) a policy of Workers’ Compensation insurance in at least the statutory amounts; and (iii) insurance covering loss to Sublessee’s personal property by fire or other casualty in accordance with the provisions of the Master Lease. Sublessee shall indemnify, defend and hold harmless the Sublessor from and against any loss, claim, damage, expense or injury to persons or property caused by or arising out of (i) use and occupancy by Sublessee, its agents, employees, contractors, licensees, or invitees, of the Subleased Premises; (ii) Sublessee’s default in the performance of its obligations hereunder or under the terms of the Master Lease; or (iii) any negligent or intentional act or omission by Sublessee, its agents, employees, contractors, licensees or invitees.

8. SURRENDER. At the expiration or earlier termination of this Sublease, Sublessee shall surrender the Subleased Premises to Sublessor in broom clean condition in the same condition as on the Commencement Date hereof, ordinary wear and tear excepted. Sublessee warrants and covenants that it will pay the full cost of any repairs or maintenance necessary to restore the Subleased Premises to the same condition as on the Commencement Date hereof, ordinary wear and tear excepted.

9. ASSIGNMENT AND SUBLETTING. Sublessee may not assign this Sublease or further sublet all or any part of the Subleased Premises without the prior written consent of Sublessor and Master Lessor.

10. DEFAULT. If Sublessee shall default in the payment of Rent, hereunder or if Sublessee shall default in the performance of any of the other terms, covenants and conditions of this Sublease which remain uncured for fifteen (15) days after written notice, then Sublessor may (i) avail itself of any remedy available to the Master Lessor under the Master Lease; (ii) avail itself of any statutory remedy provided by the laws of the state in which the Subleased Premises are situated; (iii) re-enter, retake and repossess the Premises through summary proceedings or an action of unlawful detainer; and/or (iv) terminate this Sublease.

11. ACCESS. Sublessor shall be permitted access to the Subleased Premises at all reasonable times upon reasonable advance notice, or at any time in case of emergency, to inspect the Subleased Premises or to show the Subleased Premises to other potential subtenants. Sublessor shall attempt to conduct all of its activities permitted under this Paragraph in a manner which will not unreasonably inconvenience, annoy or disturb the Sublessee in its use and occupancy of the Subleased Premises.

12. NOTICE. Any notice required or permitted to be sent pursuant to this Sublease shall be sent by FAX or certified mail, return receipt requested, postage prepaid to the parties at the following addresses or FAX numbers and to such other addresses or FAX numbers as they shall from time to time indicate:

Sublessee:

Biostratum, Inc.
2300 Englert Drive, Suite G
Durham, NC 27713
Phone: (919) 433-1000
Fax: (919) 433-1010

Sublessor:

Adherex, Inc.
4620 Creekstone Drive, Suite 200
Durham, NC 27703
Phone: 919-484-8484
Fax: 919-484-8001

13. SUBLESSOR RELEASED FROM LIABILITY IN CERTAIN EVENTS. Sublessor shall not be responsible to Sublessee, at any time or in any event, for deterioration or change in the condition of the Subleased Premises not caused by Sublessor's gross negligence or willful misconduct. Sublessor shall also not be responsible for any damage to Sublessee's property contained therein, including injury to persons whether caused by riot or civil

commotion, fire or earthquake damage, or overflow or leakage upon or into the Subleased Premises, of water, steam, gas or electricity, or by any breakage in pipes or plumbing, or breakage, leakage or obstruction of sewer pipes or other damage occasioned by water being upon or coming through the roof, skylight, trapdoors, walls, basement or otherwise, nor for failure of the heating (steam) plant, nor for loss of property by theft or otherwise, nor for any damage arising from any act or neglect of any co-tenant or other occupant of the Subleased Premises, or for that of any owner or occupants of adjoining or contiguous property unless said damage, loss or injury results from the gross negligence or willful misconduct of Sublessor or its agents, employees or contractors.

14. CONSENT OF MASTER LESSOR. This Sublease is subject to and conditioned upon the consent of the Master Lessor. If such consent is not obtained prior to the Commencement Date, this Sublease shall be voidable by either party. Sublessor shall immediately ask Master Lessor for consent.

15. ENTIRE AGREEMENT. This Sublease (including the provisions of the Master Lease incorporated herein by reference) contains the entire agreement between the parties and any agreement hereafter made shall be ineffective to change, modify or discharge it in whole or in part unless such agreement is in writing and signed by the parties hereto.

16. SUBLESSEE'S REPRESENTATIONS AND WARRANTIES. Sublessee represents and warrants that (i) Sublessee is a corporation existing and in good standing under the laws of the State of Delaware, and Sublessee is duly authorized to enter into this Sublease; (ii) the officer executing this Sublease on behalf of Sublessee is duly authorized to do so and to bind the Sublessee hereto; and (iii) Sublessee shall provide Sublessor, upon request, with financial information on Sublessee and any guarantor of Sublessee's obligation hereunder reasonably satisfactory to Sublessor.

17. MISCELLANEOUS.

a. If any term, covenant or condition of this Sublease or the application thereof to any circumstances or to any person, corporation or other entity shall be invalid or unenforceable to any extent, the remaining terms, covenants and conditions of this Sublease shall not be affected thereby and shall be valid and enforceable to the fullest extent permitted by law.

b. The paragraph headings contained in this Sublease have been included for convenience only and shall not be used in the construction or interpretation of this Sublease.

c. This Sublease shall be governed by and construed in accordance with the laws of the State of North Carolina.

18. ATTORNEYS' FEES. In the event that any action or proceeding shall be brought by any party hereto against the other with respect to any matter arising under this Sublease, the prevailing party shall be entitled to recover from the other costs of suit and reasonable attorney's fees actually incurred.

19. SUCCESSORS AND ASSIGNS. This Sublease shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

20. HOLDOVER. Sublessee shall not be permitted to hold over after the expiration or earlier termination of the Master Lease, and Sublessee shall indemnify Sublessor from and against any loss, cost or damage resulting therefrom.

21. BROKERAGE. Sublessor represents and warrants that it has dealt with no real estate broker or agent other than Corporate Realty Advisors; and Sublessee warrants that it has dealt with no real estate broker or agent, with respect to this transaction. Each party shall indemnify and hold harmless the other from and against all claims of any other broker or agent claiming to have represented Sublessee or Sublessor as the case may be in this matter. Sublessor shall pay any fee or commission due the broker so identified herein in accordance with the terms of a separate agreement.

22. SECURITY DEPOSIT. Sublessee has concurrently with the execution of this Sublease deposited with Sublessor the sum of **Thirty Thousand and 00/100 Dollars ($30,000.00)** (hereinafter referred to as the "Security Deposit") as security for the full performance of every provision of this Sublease by Sublessor. If Sublessee shall fully perform each provision of this Sublease, any portion of the Security Deposit which has not been used by Sublessor to apply to any costs, charges or payments owing by Sublessee to Sublessor hereunder shall be returned to Sublessee without interest within thirty (30) days after the expiration of the Lease term. Sublessor may deliver the funds deposited hereunder by Sublessee to the purchaser or transferee of Sublessor's interest in the Premises in the event that such interest is sold or transferred and, in the event the purchaser or transferee assumes the obligations of Sublessor, thereupon Sublessor shall be discharged from any further liability with respect to such Security Deposit. Sublessee shall have the right to provide a letter of credit to the Sublessor in the amount of the Security Deposit in lieu of cash.

In the event the improvements made to the Premises by the Sublessee require restoration of the Premises at the expiration of the Lease Term, the Security Deposit may be increased in an amount reasonably calculated to satisfy the cost of said restoration.

23. MASTER LESSOR'S REPRESENTATIONS. Master Lessor represents that (i) the Master Lease is in full force and effect in the form as set forth in Exhibit B attached hereto; and (ii) there exists no circumstance, condition, or act of default known to Master Lessor which would entitle or permit either the Master Lessor or the Sublessor to terminate the Master Lease.

24. SUBLESSOR'S REPRESENTATIONS. Sublessor represents that (i) the Master Lease is in full force and effect in the form as set forth in Exhibit B attached hereto; and (ii) there exists no circumstance, condition, or act of default which would entitle or permit either the Master Lessor or the Sublessor to terminate the Master Lease.

[The following page is the signature page.]

IN WITNESS WHEREOF, Sublessor and Sublessee have duly executed this Sublease effective as of the day and year first-above written.

SUBLESSOR:
ADHEREX, INC.

By: /s/ James A. Klein, Jr.

Name: James A. Klein, Jr.

Title: Chief Financial Officer

SUBLESSEE:
BIOSTRATUM, INC.

By: /s/ Gary M. Gordon

Name: Gary Gordon, M.D.

Title: Vice President and Chief Financial Officer

CONSENT OF MASTER LESSOR:

(Master Lessor hereby agrees and consents to the sublease of the Premises to the Sublessee as provided in Paragraph 22 of the Lease and to the terms of Paragraph 23 of the Sublease.)

Realmark-Commercial, LLC

By: /s/ Joseph M. Jewish

Name: Joseph M. Jewish

Title: President

EXHIBIT A

Description of Subleased Premises

EXHIBIT B

Copy of Master Lease

EXHIBIT C

Plans and Specifications

STATE OF NORTH CAROLINA

SUBLEASE AGREEMENT

COUNTY OF DURHAM

THIS AGREEMENT OF SUBLEASE (hereinafter referred to as "Sublease") made as of this 31st day of August, 2005, by and between BIOSTRATUM, INC., a Delaware corporation (hereinafter referred to as "Sublessor"), and ADHEREX, INC., a Delaware corporation, having a principal place of business and mailing address of 4620 Creekstone Drive, Durham, NC 27703 (hereinafter referred to as "Sublessee").

WITNESSETH:

WHEREAS, on September 8, 2000, Biostratum, Inc., as Lessee, entered into a Lease (which lease is hereinafter referred to as the "Master Lease") with Highwoods Realty Limited Partnership, a North Carolina limited partnership, as Lessor, having an office at 3100 Smoketree Court, Suite 600, Raleigh, North Carolina 27604, (hereinafter referred to as the "Master Lessor"), which lease concerns 35,600 rentable square feet of space ("Premises") in the building known as the Maplewood Building, 4620 Creekstone Drive, Durham, North Carolina ("Building"); and

WHEREAS, Sublessee desires to sublease a portion of the Premises from Sublessor, and Sublessor desires to sublease a portion of the Premises to Sublessee.

NOW, THEREFORE, in consideration of the rents and covenants hereinafter set forth to be paid and performed by Sublessee, Sublessor does hereby demise, lease and let unto Sublessee, and the Sublessee does hereby lease and take from Sublessor upon the terms and conditions hereinafter set forth the following described subleased premises (hereinafter referred to as the "Subleased Premises"):

Approximately 18,234 rentable square feet on the second floor of the Building, shown as Suite 200 on the drawing attached hereto as Exhibit A and approximately 38 rentable square feet on the first floor of the Building, shown as Suite 140 on the drawing attached hereto as Exhibit A and incorporated herein by reference.

1. RELATIONSHIP TO MASTER LEASE. The Sublease and all its terms, covenants and provisions are and each of them is subject and subordinate to (i) the Master Lease (a copy of which is attached hereto as Exhibit B and made a part hereof by reference) under which Sublessor is in control of the Subleased Premises; (ii) the rights as contained in the Master Lease of the owner or owners of the Premises and/or the land and building of which the Subleased Premises are a part; (iii) all rights of Master Lessor as contained in the Master Lease; and (iv) to any and all mortgages or encumbrances now or hereafter affecting the Subleased Premises to which the Master Lease would be subordinated. Sublessee expressly agrees that, if Sublessor's tenancy, control or right to possession shall terminate by expiration or any other

cause not due to the fault of Sublessor, this Sublease shall thereupon immediately cease and terminate and Sublessee shall give immediate possession to Sublessor; provided however, that the liability of the Sublessee to the Sublessor or the liability of the Sublessor to the Sublessee for termination caused by the applicable party's default under this Sublease shall not be discharged by reason of such termination.

2. PERFORMANCE OF MASTER LEASE TERMS. With respect to the Subleased Premises, Sublessee shall receive all benefits which accrue to Sublessor under the Master Lease as it relates to the Subleased Premises. Sublessee hereby expressly, and without condition or reservation, agrees to assume the obligation for performance of all Sublessor's responsibilities under the Master Lease with respect to the Subleased Premises and, during the term hereof, to be subject to and bound by, and to faithfully and punctually perform and comply with all of the covenants, conditions, stipulations, restrictions and agreements contained therein except as expressly excluded herein. Sublessee hereby agrees to indemnify and hold harmless Sublessor from and against any loss, claim, damage, expense or injury (including reasonable attorney's fees and court costs) which Sublessor may incur as a result of Sublessee's failure to perform such obligations on behalf of Sublessor. Sublessor covenants and agrees that if and so long as the Sublessee pays the Rent (as defined below), and fully, faithfully and punctually observes the covenants and conditions hereof, Sublessee shall quietly enjoy the Subleased Premises, subject, however, to the terms of this Sublease and the Master Lease.

3. TERM. The term of this Sublease shall commence on September 1, 2005 ("Commencement Date"), and expire four (4) months after the Commencement Date, or December 31, 2005 (hereinafter, the "Sublease Term").

4. RENT. Sublessee and Sublessor hereby agree that no rent shall be owed by Sublessee to Sublessor during the Sublease Term.

This is a Full Service sublease. The term "Full Service" as used herein shall mean that the Sublessor shall provide to the Sublessee all electrical, water and sewer, natural gas (if any), cleaning and janitorial, HVAC, maintenance and repair services of any kind serving the Subleased Premises ("Services"). Services are to be provided during normal business hours, Monday through Friday. Sublessee shall be responsible for payment of any Services used in the Subleased Premises by the Sublessee after normal business hours on weekdays and used on holidays and on weekends, for any other utilities serving the Subleased Premises and for the cost of any utilities which exceed $1.50 per square foot per year. Normal business hours are 7:00 a.m. until 6:00 p.m., Monday through Friday. Services shall not include telephone and other data delivery services.

5. USE. Sublessee shall use the Subleased Premises for general office and laboratory use only and at all times in compliance with the Master Lease.

6. CONDITION OF PREMISES.

A. SUBLESSEE (i) ACCEPTS THE SUBLEASED PREMISES IN THEIR "AS IS" CONDITION ON THE COMMENCEMENT DATE HEREOF, (ii) ACKNOWLEDGES THAT SUBLESSOR HAS MADE AND MAKES NO REPRESENTATIONS OR WARRANTIES CONCERNING THE CONDITION OF THE SUBLEASED PREMISES OR THEIR FITNESS FOR THE USE INTENDED BY SUBLESSEE, AND (iii) AGREES THAT TO THE MAXIMUM EXTENT PERMITTED BY LAW THE SUBLESSEE WAIVES ANY CLAIM IT HAS, MAY HAVE, OR OUGHT TO HAVE AGAINST THE SUBLESSOR, BASED ON OR ARISING OUT OF THE CONDITION OF THE SUBLEASED PREMISES. Sublessee shall, at all times during the term hereof, keep and maintain the Subleased Premises in good condition and repair as required by the Master Lease, provided the Sublessee has no obligation to repair or restore the Subleased Premises to a better state of condition or repair than as of the Commencement Date.

B. Sublessor shall deliver the Subleased Premises to the Sublessee in accordance with the contents of Exhibit C attached hereto.

C. Sublessee shall bear all costs associated with: Future Upfit, if any.

D. Sublessor shall bear costs associated with: None

7. INSURANCE AND INDEMNIFICATIONS. At all times during the term of this Sublease, Sublessee shall, at Sublessee's expense, keep in effect (i) a policy of Comprehensive General Liability insurance with a company and in amounts as required under the Master Lease, which policy shall name Sublessor and Master Lessor as additional insureds; (ii) a policy of Workers' Compensation insurance in at least the statutory amounts; and (iii) insurance covering loss to Sublessee's personal property by fire or other casualty in accordance with the provisions of the Master Lease. Sublessee shall indemnify, defend and hold harmless the Sublessor from and against any loss, claim, damage, expense or injury to persons or property caused by or arising out of (i) use and occupancy by Sublessee, its agents, employees, contractors, licensees, or invitees, of the Subleased Premises; (ii) Sublessee's default in the performance of its obligations hereunder or under the terms of the Master Lease; or (iii) any negligent or intentional act or omission by Sublessee, its agents, employees, contractors, licensees or invitees.

8. SURRENDER. At the expiration or earlier termination of this Sublease, Sublessee shall surrender the Subleased Premises to Sublessor in broom clean condition in the same condition as on the Commencement Date hereof, ordinary wear and tear excepted. Sublessee warrants and covenants that it will pay the full cost of any repairs or maintenance necessary to restore the Subleased Premises to the same condition as on the Commencement Date hereof, ordinary wear and tear excepted.

9. ASSIGNMENT AND SUBLETTING. Sublessee may not assign this Sublease or further sublet all or any part of the Subleased Premises without the prior written consent of Sublessor and Master Lessor.

10. DEFAULT. If Sublessee shall default in the payment of Rent, hereunder or if Sublessee shall default in the performance of any of the other terms, covenants and conditions of this Sublease which remain uncured for fifteen (15) days after written notice, then Sublessor may (i) avail itself of any remedy available to the Master Lessor under the Master Lease; (ii) avail itself of any statutory remedy provided by the laws of the state in which the Subleased Premises are situated; (iii) re-enter, retake and repossess the Premises through summary proceedings or an action of unlawful detainer; and/or (iv) terminate this Sublease.

11. ACCESS. Sublessor shall be permitted access to the Subleased Premises at all reasonable times upon reasonable advance notice, or at any time in case of emergency, to inspect the Subleased Premises or to show the Subleased Premises to other potential subtenants. Sublessor shall attempt to conduct all of its activities permitted under this Paragraph in a manner which will not unreasonably inconvenience, annoy or disturb the Sublessee in its use and occupancy of the Subleased Premises.

12. NOTICE. Any notice required or permitted to be sent pursuant to this Sublease shall be sent by FAX or certified mail, return receipt requested, postage prepaid to the parties at the following addresses or FAX numbers and to such other addresses or FAX numbers as they shall from time to time indicate:

Sublessee:

Adherex, Inc.
4620 Creekstone Drive, Suite 200
Durham, NC 27703
Phone: 919-484-8484
Fax: 919-484-8001

Sublessor:

Biostratum, Inc.
2300 Englert Drive, Suite G
Durham, NC 27713
Phone: 919-433-1000
Fax: 919-433-1010

13. SUBLESSOR RELEASED FROM LIABILITY IN CERTAIN EVENTS. Sublessor shall not be responsible to Sublessee, at any time or in any event, for deterioration or change in the condition of the Subleased Premises not caused by Sublessor's gross negligence or willful misconduct. Sublessor shall also not be responsible for any damage to Sublessee's property contained therein, including injury to persons whether caused by riot or civil commotion, fire or earthquake damage, or overflow or leakage upon or into the Subleased Premises, of water, steam, gas or electricity, or by any breakage in pipes or plumbing, or breakage, leakage or obstruction of sewer pipes or other damage occasioned by water being upon or coming through the roof, skylight, trapdoors, walls, basement or otherwise, nor for failure of the heating (steam) plant, nor for loss of property by theft or otherwise, nor for any damage arising from any act or neglect of any co-tenant or other occupant of the Subleased Premises, or for that of any owner or occupants of adjoining or contiguous property unless said damage, loss or injury results from the gross negligence or willful misconduct of Sublessor or its agents, employees or contractors.

14. CONSENT OF MASTER LESSOR. This Sublease is subject to and conditioned upon the consent of the Master Lessor. If such consent is not obtained prior to the Commencement Date, this Sublease shall be voidable by either party. Sublessor shall immediately ask Master Lessor for consent.

15. ENTIRE AGREEMENT. This Sublease (including the provisions of the Master Lease incorporated herein by reference) contains the entire agreement between the parties and any agreement hereafter made shall be ineffective to change, modify or discharge it in whole or in part unless such agreement is in writing and signed by the parties hereto.

16. SUBLESSEE'S REPRESENTATIONS AND WARRANTIES. Sublessee represents and warrants that (i) Sublessee is a corporation existing and in good standing under the laws of the State of Delaware, and Sublessee is duly authorized to enter into this Sublease; (ii) the officer executing this Sublease on behalf of Sublessee is duly authorized to do so and to bind the Sublessee hereto; and (iii) Sublessee shall provide Sublessor, upon request, with financial information on Sublessee and any guarantor of Sublessee's obligation hereunder reasonably satisfactory to Sublessor.

17. MISCELLANEOUS.

a. If any term, covenant or condition of this Sublease or the application thereof to any circumstances or to any person, corporation or other entity shall be invalid or unenforceable to any extent, the remaining terms, covenants and conditions of this Sublease shall not be affected thereby and shall be valid and enforceable to the fullest extent permitted by law.

b. The paragraph headings contained in this Sublease have been included for convenience only and shall not be used in the construction or interpretation of this Sublease.

c. This Sublease shall be governed by and construed in accordance with the laws of the State of North Carolina.

18. ATTORNEYS' FEES. In the event that any action or proceeding shall be brought by any party hereto against the other with respect to any matter arising under this Sublease, the prevailing party shall be entitled to recover from the other costs of suit and reasonable attorney's fees actually incurred.

19. SUCCESSORS AND ASSIGNS. This Sublease shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

20. HOLDOVER. Sublessee shall not be permitted to hold over after the expiration or earlier termination of the Master Lease, and Sublessee shall indemnify Sublessor from and against any loss, cost or damage resulting therefrom.

21. BROKERAGE. Sublessee represents and warrants that it has dealt with no real estate broker or agent other than Corporate Realty Advisors; and Sublessor warrants that it has dealt with no real estate broker or agent, with respect to this transaction. Each party shall indemnify and hold harmless the other from and against all claims of any other broker or agent claiming to have represented Sublessee or Sublessor as the case may be in this matter. Sublessee shall pay any fee or commission due the broker so identified herein in accordance with the terms of a separate agreement.

22. SECURITY DEPOSIT. Intentionally deleted.

23. MASTER LESSOR'S REPRESENTATIONS. Master Lessor represents that (i) the Master Lease is in full force and effect in the form as set forth in Exhibit B attached hereto; and (ii) there exists no circumstance, condition, or act of default which would entitle or permit either the Master Lessor or the Sublessor to terminate the Master Lease.

[The following page is the signature page.]

IN WITNESS WHEREOF, Sublessor and Sublessee have duly executed this Sublease effective as of the day and year first-above written.

SUBLESSEE:
ADHEREX, INC.

By: /s/ James A. Klein, Jr.

Name: James A. Klein, Jr.

Title: Chief Financial Officer

SUBLESSOR:
BIOSTRATUM, INC.

By: /s/ Gary M. Gordon

Name: Gary Gordon, M.D.

Title: Vice President and Chief Financial Officer

CONSENT OF MASTER LESSOR: See attached separate consent.

EXHIBIT A

Description of Subleased Premises

EXHIBIT B

Copy of Master Lease

EXHIBIT C

Improvements

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT (THE "SECURITIES") HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE AND ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AS SET FORTH IN THIS WARRANT. BY PURCHASING SUCH SECURITIES, THE HOLDER HEREOF AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE ACT, OR (B) IN ACCORDANCE WITH AN EFFECTIVE REGISTRATION STATEMENT OR PURSUANT TO ANOTHER EXEMPTION FROM REGISTRATION.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE NOVEMBER 21, 2005.

WARRANT TO PURCHASE COMMON SHARES OF
ADHEREX TECHNOLOGIES INC.

(void after July 20, 2008)

No. War-[_____] July 20, 2005

THIS CERTIFIES THAT, for value received, [_____] or registered assigns (the "**Holder**"), from and after the Commencement Date (as defined below), and subject to the terms and conditions herein set forth, is entitled to purchase from Adherex Technologies Inc., a Canadian corporation (the "**Company**"), at any time before 5:00 p.m. Ottawa, Ontario time on July 20, 2008 (the "**Termination Date**"), [_____] ([_____]) common shares in the capital of the Company ("**Common Shares"**), at a price per share equal to the Warrant Price (as defined below) upon exercise of this Warrant pursuant to Section 5 hereof. The number of Common Shares issuable pursuant to this Warrant (the "**Warrant Shares**") is subject to adjustment under Section 2.

1. Definitions. As used in this Warrant, the following terms have the definitions ascribed to them below:

(a) "**Commencement Date**" means January 20, 2006.

(b) "**Issuance Date**" means July 20, 2005.

(c) "**person**" means any individual, corporation, partnership, limited liability company, trust, incorporated or unincorporated association, joint venture, joint stock company, governmental authority or other entity of any kind, and shall include any successor (by merger or otherwise) of such entity.

(d) "**Warrant Price**" means U.S.$0.35 per share subject to adjustment under Section 2.

2. Adjustments and Notices. The Warrant Price and/or the Warrant Shares shall be subject to adjustment from time to time in accordance with this Section 2. The Warrant Price and/or the Warrant Shares shall be adjusted to reflect all of the following events that occur on or after the Issuance Date.

(a) Subdivision, Stock Dividends or Combinations. In case the Company shall at any time subdivide the outstanding Common Shares or shall issue a stock dividend with respect to the Common Shares, the Warrant Price in effect immediately prior to such subdivision or the issuance of such dividend shall be proportionately decreased, and the number of Warrant Shares for which this Warrant may be exercised immediately prior to such subdivision or the issuance of such dividend shall be proportionately increased. In case the Company shall at any time combine the outstanding Common Shares, the Warrant Price in effect immediately prior to such combination shall be proportionately increased, and the number

of Warrant Shares for which this Warrant may be exercised immediately prior to such combination shall be proportionately decreased. In each of the foregoing cases, the adjustment shall be effective at the close of business on the date of such subdivision, dividend or combination, as the case may be.

(b) Reclassification, Exchange, Substitution, In-Kind Distribution. Upon any reclassification, exchange, substitution or other event that results in a change of the number and/or class of the securities issuable upon exercise or conversion of this Warrant or upon the payment of a dividend in securities or property other than Common Shares, the Holder shall be entitled to receive, upon exercise of this Warrant, the number and kind of securities and property that Holder would have received if this Warrant had been exercised immediately before the record date for such reclassification, exchange, substitution, or other event or immediately prior to the record date for such dividend. The Company or its successor shall promptly issue to Holder a new warrant for such new securities or other property. The new warrant shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 2 including, without limitation, adjustments to the Warrant Price and to the number of securities or property issuable upon exercise or conversion of the new warrant. The provisions of this Section 2(b) shall similarly apply to successive reclassifications, exchanges, substitutions, or other events and successive dividends.

(c) Reorganization, Merger etc. In case of any merger or consolidation of the Company into or with another corporation where the Company is not the surviving corporation, or sale, transfer or lease (but not including a transfer or lease by pledge or mortgage to a bona fide lender) of all or substantially all of the assets of the Company, the Company, or such successor or purchasing corporation, as the case may be, shall, as a condition to closing any such reorganization, merger or sale, duly execute and deliver to the Holder hereof a new warrant so that the Holder shall have the right to receive, at a total purchase price not to exceed that payable upon the exercise or conversion of the unexercised portion of this Warrant, and in lieu of the Warrant Shares theretofore issuable upon exercise or conversion of this Warrant, the kind and amount of shares of stock, other securities, money and property that would have been receivable upon such reorganization, merger or sale by the Holder with respect to the Warrant Shares if this Warrant had been exercised immediately before the consummation of such transaction. Such new warrant shall provide for adjustments that shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 2. The provisions of this subparagraph (c) shall similarly apply to successive transactions of the type described in this subparagraph (c).

(d) Certificate of Adjustment. In each case of an adjustment or readjustment of the Warrant Price, the Company, at its own expense, shall cause its chief financial officer (or other most senior financial officer at the time) to compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first class mail, postage prepaid, to the Holder. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based. No adjustment of the Warrant Price shall be required to be made unless it would result in an increase or decrease of at least U.S.$0.01, but any adjustments not made because of this sentence shall be carried forward and taken into account in any subsequent adjustment otherwise required hereunder.

(e) No Impairment. The Company shall not, by amendment of its charter, by-laws or other organizational documents, or through a reorganization, transfer of assets, consolidation, merger, dissolution, issue, or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed under this Warrant by the Company, but shall subject to Section 8 at all times in good faith assist in carrying out all of the provisions of this Section 2 and in taking all such action as may be necessary or appropriate to protect the Holder’s rights under this Section 2 against impairment.

(f) Fractional Shares. No fractional shares shall be issuable upon exercise or conversion of the Warrant and the number of shares to be issued shall be rounded down to the nearest whole share. If a fractional share interest arises upon any exercise or conversion of the Warrant, the Company shall eliminate such fractional share interest by paying the Holder an amount computed by multiplying the fractional interest by the fair market value of a full share.

3. No Shareholder Rights. This Warrant, by itself, as distinguished from any shares purchased hereunder, shall not entitle the Holder to any of the rights of a shareholder of the Company.

4. Reservation of Shares. The Company will reserve from its authorized and unissued share capital a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of this Warrant. Issuance of this Warrant shall constitute full authority to the Company's officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the Warrant Shares issuable upon the exercise of this Warrant.

5. Exercise of Warrant. This Warrant may be exercised by the Holder hereof, in whole or in part, at any time from and after the Commencement Time and prior to the Termination Date, at the election of the Holder hereof (with the notice of exercise substantially in the form attached hereto as Attachment 1 duly completed and executed for an exercise under this Section 5), by the surrender of this Warrant at the principal office of the Company or transfer agent and the payment to the Company, by certified or bank check, or by wire transfer to an account designated by the Company of an amount equal to the then applicable Warrant Price multiplied by the number of Warrant Shares then being purchased. This Warrant shall be deemed to have been exercised immediately prior to the close of business on the date of its surrender for exercise as provided above, and the person entitled to receive the Warrant Shares issuable upon such exercise shall be treated for all purposes as the holder of such shares of record as of the close of business on such date. As promptly as practicable after such date, the Company shall issue and deliver to the person or persons entitled to receive the same a certificate or certificates for the number of full Warrant Shares issuable upon such exercise.

6. Transfer of Warrant. This Warrant is issued upon the following terms respecting transferability, to which Holder consents and agrees:

(a) Until this Warrant is transferred on the books of the Company, the Company will, and shall be entitled to, treat the Holder of this Warrant registered as such on the books of the Company as the absolute owner hereof for all purposes without being affected by any notice to the contrary.

(b) This Warrant may not be exercised, and this Warrant and the Warrant Shares shall not be transferable, except in compliance with all applicable provincial, state and federal securities laws, regulations and orders, and with all other applicable laws, regulations and orders.

(c) subject to clauses (b) and (d) of this Section 6, the Warrant may be transferred by the Holder completing and delivering to the Company a notice of transfer substantially in the form attached hereto as Attachment 2.

(d) The Warrant may not be transferred, and the Warrant Shares may not be transferred, to persons in the United States or to U.S. Persons (as that term is defined in Regulation S under the *United States Securities Act of 1933*, as amended (the "US Securities Act") without the Holder obtaining an opinion of legal counsel satisfactory in form and substance to the Company's legal counsel stating that the proposed transaction will not result in a prohibited transaction under the US Securities Act, and all other applicable state and federal securities laws, regulations and orders. By accepting this Warrant, the Holder agrees to act in accordance with any conditions reasonably imposed on such transfer by such opinion of legal counsel.

(e) Neither the issuance of this Warrant nor the issuance of the Warrant Shares have been qualified by prospectus or registered under any Canadian provincial securities laws, the US Securities Act or any US state securities laws.

7. Covenants, Representations and Warranties. The Company hereby represents and warrants that it is authorized to create and issue the Warrants and covenants and agrees that it will cause the Common Shares from time to time subscribed for and purchased in the manner provided in this Warrant and the certificate or certificates representing such Common Shares to be issued and that, at all times prior to 5:00 p.m. (Ottawa, Ontario time) on the Termination Date, it will reserve and there will remain unissued a sufficient number of Common Shares to satisfy the right of purchase provided for in this Warrant. The Company hereby further covenants and agrees that it will at its expense expeditiously use its best efforts to obtain the listing of such Common Shares (subject to issue or notice of issue) on each stock exchange or over-the-counter market on which the Common Shares may be listed from time to time. All Common Shares which are issued upon the exercise of the right of purchase provided in this Warrant, upon payment therefor of the amount at which such Common Shares may be purchased pursuant to the provisions of this Warrant, shall be and be deemed to be fully paid and non-assessable shares and free from all taxes, liens and charges with respect to the issue thereof. The Company hereby represents and warrants that this Warrant is a valid and enforceable obligation of the Company, enforceable in accordance with the provisions of this Warrant.

8. Legends. Upon issuance, the certificate or certificates evidencing any Warrant Shares shall bear legends as set forth in the subscription agreement of even date herewith between the original Holder and the Company and as required under any applicable provincial, state and federal securities laws, regulations and orders, and with all other applicable laws and regulations.

9. Further Assurances. The Company hereby covenants and agrees that it will do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, all and every such other act, deed and assurance as the Holder shall reasonably require for the better accomplishing and effectuating of the intentions and provisions of this Warrant.

10. Successors and Assigns. This Warrant shall enure to the benefit of the Holder and the successors and assignees thereof and shall be binding upon the Company and the successors thereof.

11. Termination. This Warrant shall terminate at 5:00 p.m. (Ottawa, Ontario time) on the Termination Date.

12. Miscellaneous. This Warrant shall be governed by the laws of the Province of Ontario, as such laws are applied to contracts to be entered into and performed entirely in Ontario by Ontario residents. The headings in this Warrant are for purposes of convenience and reference only, and shall not be deemed to constitute a part hereof. Neither this Warrant nor any term hereof may be changed or waived orally, but only by an instrument in writing signed by the Company and the Holder. All notices and other communications from the Company to the Holder of this Warrant shall be delivered personally or by facsimile transmission or mailed by first class mail, postage prepaid, to the address or facsimile number furnished to the Company in writing by the last Holder of this Warrant who shall have furnished an address or facsimile number to the Company in writing, and if mailed shall be deemed given three days after deposit in the United States mail. Upon receipt of evidence satisfactory to the Company of the ownership of and the loss, theft, destruction or mutilation of any Warrant and, in the case of any such loss, theft or destruction, upon receipt of indemnity or security satisfactory to the Company or, in the case

of any such mutilation, upon surrender and cancellation of such Warrant, the Company will make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same aggregate number of Common Shares. Time shall be of the essence of this Warrant. The parties hereto have expressly required that this agreement and all documents, agreements and notices related hereto be drafted in the English language. Les parties aux présentes ont expressément exigé que le présent contrat et tous les autres documents, conventions ou avis qui y sont afférents soient rédigés en langue anglaise.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

ADHEREX TECHNOLOGIES INC., intending to be contractually bound, has caused this Warrant to be signed by its duly authorized officer in the date set forth above.

ADHEREX TECHNOLOGIES INC.

By: _____
Name:
Title:

Attachment 1

NOTICE OF EXERCISE

TO: ADHEREX TECHNOLOGIES INC.

1. The undersigned hereby elects to purchase _____ Common Shares of the Company pursuant to Section 5 of the attached Warrant, and tenders herewith payment of the purchase price of such shares in full.

2. Please issue a certificate or certificates representing said Warrant Shares in the name of the undersigned or in such other name as is specified below:

_____
(Name in which certificate(s) are to be issued)

_____
(Address)

_____
(Name of Warrant Holder)

By: _____

Title: _____

Date signed: _____

Attachment 2

FORM OF TRANSFER

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

_____

(include name and address of the transferee) Warrants exercisable for common shares of Adherex Technologies Inc. (the "Company") registered in the name of the undersigned on the register of the Company maintained therefor, and hereby irrevocably appoints _____ the attorney of the undersigned to transfer the said securities on the books maintained by the Company with full power of substitution.

DATED this __ day of _____, 200_.

Signature of Transferor guaranteed by:

_____ _____

Signature of Transferor

_____

_____

_____

Address of Transferor

Notes:

The signature to this transfer must correspond with the name written upon the face of this Warrant Certificate in every particular without any changes whatsoever.

If the Transfer Form indicates that common shares are to be issued to a person or persons other than the registered holder of the Warrant Certificate, the signature on this Transfer Form must be guaranteed by a Schedule I chartered bank or licensed trust company, or a member of an acceptable medallion guarantee program. The guarantor must affix a stamp bearing the actual words "Signature Guaranteed". Signature guarantees are not accepted from Treasury Branches or credit unions unless they are members of the Stamp Medallion Program.

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT (THE "SECURITIES") HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE AND ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AS SET FORTH IN THIS WARRANT. BY PURCHASING SUCH SECURITIES, THE HOLDER HEREOF AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE ACT, OR (B) IN ACCORDANCE WITH AN EFFECTIVE REGISTRATION STATEMENT OR PURSUANT TO ANOTHER EXEMPTION FROM REGISTRATION.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE NOVEMBER 21, 2005.

WARRANT TO PURCHASE COMMON SHARES OF
ADHEREX TECHNOLOGIES INC.

(void after July 20, 2007)

No. War-[_____] July 20, 2005

THIS CERTIFIES THAT, for value received, [_____] or registered assigns (the "**Holder**"), from and after the Commencement Date (as defined below), and subject to the terms and conditions herein set forth, is entitled to purchase from Adherex Technologies Inc., a Canadian corporation (the "**Company**"), at any time before 5:00 p.m. Ottawa, Ontario time on July 20, 2007 (the "**Termination Date**"), [_____] ([_____]) common shares in the capital of the Company ("**Common Shares"**), at a price per share equal to the Warrant Price (as defined below) upon exercise of this Warrant pursuant to Section 5 hereof. The number of Common Shares issuable pursuant to this Warrant (the "**Warrant Shares**") is subject to adjustment under Section 2.

1. Definitions. As used in this Warrant, the following terms have the definitions ascribed to them below:

(a) "**Commencement Date**" means January 20, 2006.

(b) "**Issuance Date**" means July 20, 2005.

(c) "**person**" means any individual, corporation, partnership, limited liability company, trust, incorporated or unincorporated association, joint venture, joint stock company, governmental authority or other entity of any kind, and shall include any successor (by merger or otherwise) of such entity.

(d) "**Warrant Price**" means U.S.$0.35 per share subject to adjustment under Section 2.

2. Adjustments and Notices. The Warrant Price and/or the Warrant Shares shall be subject to adjustment from time to time in accordance with this Section 2. The Warrant Price and/or the Warrant Shares shall be adjusted to reflect all of the following events that occur on or after the Issuance Date.

(a) Subdivision, Stock Dividends or Combinations. In case the Company shall at any time subdivide the outstanding Common Shares or shall issue a stock dividend with respect to the Common Shares, the Warrant Price in effect immediately prior to such subdivision or the issuance of such dividend shall be proportionately decreased, and the number of Warrant Shares for which this Warrant may be exercised immediately prior to such subdivision or the issuance of such dividend shall be proportionately increased. In case the Company shall at any time combine the outstanding Common Shares, the Warrant Price in effect immediately prior to such combination shall be proportionately increased, and the number

of Warrant Shares for which this Warrant may be exercised immediately prior to such combination shall be proportionately decreased. In each of the foregoing cases, the adjustment shall be effective at the close of business on the date of such subdivision, dividend or combination, as the case may be.

(b) Reclassification, Exchange, Substitution, In-Kind Distribution. Upon any reclassification, exchange, substitution or other event that results in a change of the number and/or class of the securities issuable upon exercise or conversion of this Warrant or upon the payment of a dividend in securities or property other than Common Shares, the Holder shall be entitled to receive, upon exercise of this Warrant, the number and kind of securities and property that Holder would have received if this Warrant had been exercised immediately before the record date for such reclassification, exchange, substitution, or other event or immediately prior to the record date for such dividend. The Company or its successor shall promptly issue to Holder a new warrant for such new securities or other property. The new warrant shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 2 including, without limitation, adjustments to the Warrant Price and to the number of securities or property issuable upon exercise or conversion of the new warrant. The provisions of this Section 2(b) shall similarly apply to successive reclassifications, exchanges, substitutions, or other events and successive dividends.

(c) Reorganization, Merger etc. In case of any merger or consolidation of the Company into or with another corporation where the Company is not the surviving corporation, or sale, transfer or lease (but not including a transfer or lease by pledge or mortgage to a bona fide lender) of all or substantially all of the assets of the Company, the Company, or such successor or purchasing corporation, as the case may be, shall, as a condition to closing any such reorganization, merger or sale, duly execute and deliver to the Holder hereof a new warrant so that the Holder shall have the right to receive, at a total purchase price not to exceed that payable upon the exercise or conversion of the unexercised portion of this Warrant, and in lieu of the Warrant Shares theretofore issuable upon exercise or conversion of this Warrant, the kind and amount of shares of stock, other securities, money and property that would have been receivable upon such reorganization, merger or sale by the Holder with respect to the Warrant Shares if this Warrant had been exercised immediately before the consummation of such transaction. Such new warrant shall provide for adjustments that shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 2. The provisions of this subparagraph (c) shall similarly apply to successive transactions of the type described in this subparagraph (c).

(d) Certificate of Adjustment. In each case of an adjustment or readjustment of the Warrant Price, the Company, at its own expense, shall cause its chief financial officer (or other most senior financial officer at the time) to compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first class mail, postage prepaid, to the Holder. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based. No adjustment of the Warrant Price shall be required to be made unless it would result in an increase or decrease of at least U.S.$0.01, but any adjustments not made because of this sentence shall be carried forward and taken into account in any subsequent adjustment otherwise required hereunder.

(e) No Impairment. The Company shall not, by amendment of its charter, by-laws or other organizational documents, or through a reorganization, transfer of assets, consolidation, merger, dissolution, issue, or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed under this Warrant by the Company, but shall subject to Section 8 at all times in good faith assist in carrying out all of the provisions of this Section 2 and in taking all such action as may be necessary or appropriate to protect the Holder’s rights under this Section 2 against impairment.

(f) Fractional Shares. No fractional shares shall be issuable upon exercise or conversion of the Warrant and the number of shares to be issued shall be rounded down to the nearest whole share. If a fractional share interest arises upon any exercise or conversion of the Warrant, the Company shall eliminate such fractional share interest by paying the Holder an amount computed by multiplying the fractional interest by the fair market value of a full share.

3. No Shareholder Rights. This Warrant, by itself, as distinguished from any shares purchased hereunder, shall not entitle the Holder to any of the rights of a shareholder of the Company.

4. Reservation of Shares. The Company will reserve from its authorized and unissued share capital a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of this Warrant. Issuance of this Warrant shall constitute full authority to the Company's officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the Warrant Shares issuable upon the exercise of this Warrant.

5. Exercise of Warrant. This Warrant may be exercised by the Holder hereof, in whole or in part, at any time from and after the Commencement Time and prior to the Termination Date, at the election of the Holder hereof (with the notice of exercise substantially in the form attached hereto as Attachment 1 duly completed and executed for an exercise under this Section 5), by the surrender of this Warrant at the principal office of the Company or transfer agent and the payment to the Company, by certified or bank check, or by wire transfer to an account designated by the Company of an amount equal to the then applicable Warrant Price multiplied by the number of Warrant Shares then being purchased. This Warrant shall be deemed to have been exercised immediately prior to the close of business on the date of its surrender for exercise as provided above, and the person entitled to receive the Warrant Shares issuable upon such exercise shall be treated for all purposes as the holder of such shares of record as of the close of business on such date. As promptly as practicable after such date, the Company shall issue and deliver to the person or persons entitled to receive the same a certificate or certificates for the number of full Warrant Shares issuable upon such exercise.

6. Transfer of Warrant. This Warrant is issued upon the following terms respecting transferability, to which Holder consents and agrees:

(a) Until this Warrant is transferred on the books of the Company, the Company will, and shall be entitled to, treat the Holder of this Warrant registered as such on the books of the Company as the absolute owner hereof for all purposes without being affected by any notice to the contrary.

(b) This Warrant may not be exercised, and this Warrant and the Warrant Shares shall not be transferable, except in compliance with all applicable provincial, state and federal securities laws, regulations and orders, and with all other applicable laws, regulations and orders.

(c) subject to clauses (b) and (d) of this Section 6, the Warrant may be transferred by the Holder completing and delivering to the Company a notice of transfer substantially in the form attached hereto as Attachment 2.

(d) The Warrant may not be transferred, and the Warrant Shares may not be transferred, to persons in the United States or to U.S. Persons (as that term is defined in Regulation S under the *United States Securities Act of 1933*, as amended (the "US Securities Act") without the Holder obtaining an opinion of legal counsel satisfactory in form and substance to the Company's legal counsel stating that the proposed transaction will not result in a prohibited transaction under the US Securities Act, and all other applicable state and federal securities laws, regulations and orders. By accepting this Warrant, the Holder agrees to act in accordance with any conditions reasonably imposed on such transfer by such opinion of legal counsel.

(e) Neither the issuance of this Warrant nor the issuance of the Warrant Shares have been qualified by prospectus or registered under any Canadian provincial securities laws, the US Securities Act or any US state securities laws.

7. Covenants, Representations and Warranties. The Company hereby represents and warrants that it is authorized to create and issue the Warrants and covenants and agrees that it will cause the Common Shares from time to time subscribed for and purchased in the manner provided in this Warrant and the certificate or certificates representing such Common Shares to be issued and that, at all times prior to 5:00 p.m. (Ottawa, Ontario time) on the Termination Date, it will reserve and there will remain unissued a sufficient number of Common Shares to satisfy the right of purchase provided for in this Warrant. The Company hereby further covenants and agrees that it will at its expense expeditiously use its best efforts to obtain the listing of such Common Shares (subject to issue or notice of issue) on each stock exchange or over-the-counter market on which the Common Shares may be listed from time to time. All Common Shares which are issued upon the exercise of the right of purchase provided in this Warrant, upon payment therefor of the amount at which such Common Shares may be purchased pursuant to the provisions of this Warrant, shall be and be deemed to be fully paid and non-assessable shares and free from all taxes, liens and charges with respect to the issue thereof. The Company hereby represents and warrants that this Warrant is a valid and enforceable obligation of the Company, enforceable in accordance with the provisions of this Warrant.

8. Legends. Upon issuance, the certificate or certificates evidencing any Warrant Shares shall bear legends as set forth in the subscription agreement of even date herewith between the original Holder and the Company and as required under any applicable provincial, state and federal securities laws, regulations and orders, and with all other applicable laws and regulations.

9. Further Assurances. The Company hereby covenants and agrees that it will do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, all and every such other act, deed and assurance as the Holder shall reasonably require for the better accomplishing and effectuating of the intentions and provisions of this Warrant.

10. Successors and Assigns. This Warrant shall enure to the benefit of the Holder and the successors and assignees thereof and shall be binding upon the Company and the successors thereof.

11. Termination. This Warrant shall terminate at 5:00 p.m. (Ottawa, Ontario time) on the Termination Date.

12. Miscellaneous. This Warrant shall be governed by the laws of the Province of Ontario, as such laws are applied to contracts to be entered into and performed entirely in Ontario by Ontario residents. The headings in this Warrant are for purposes of convenience and reference only, and shall not be deemed to constitute a part hereof. Neither this Warrant nor any term hereof may be changed or waived orally, but only by an instrument in writing signed by the Company and the Holder. All notices and other communications from the Company to the Holder of this Warrant shall be delivered personally or by facsimile transmission or mailed by first class mail, postage prepaid, to the address or facsimile number furnished to the Company in writing by the last Holder of this Warrant who shall have furnished an address or facsimile number to the Company in writing, and if mailed shall be deemed given three days after deposit in the United States mail. Upon receipt of evidence satisfactory to the Company of the ownership of and the loss, theft, destruction or mutilation of any Warrant and, in the case of any such loss, theft or destruction, upon receipt of indemnity or security satisfactory to the Company or, in the case

of any such mutilation, upon surrender and cancellation of such Warrant, the Company will make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same aggregate number of Common Shares. Time shall be of the essence of this Warrant. The parties hereto have expressly required that this agreement and all documents, agreements and notices related hereto be drafted in the English language. Les parties aux présentes ont expressément exigé que le présent contrat et tous les autres documents, conventions ou avis qui y sont afférents soient rédigés en langue anglaise.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

ADHEREX TECHNOLOGIES INC., intending to be contractually bound, has caused this Warrant to be signed by its duly authorized officer in the date set forth above.

ADHEREX TECHNOLOGIES INC.

By: _____
Name:
Title:

Attachment 1

NOTICE OF EXERCISE

TO: ADHEREX TECHNOLOGIES INC.

1. The undersigned hereby elects to purchase_____ Common Shares of the Company pursuant to Section 5 of the attached Warrant, and tenders herewith payment of the purchase price of such shares in full.

2. Please issue a certificate or certificates representing said Warrant Shares in the name of the undersigned or in such other name as is specified below:

_____

(Name in which certificate(s) are to be issued)

_____

(Address)

_____

(Name of Warrant Holder)

By: _____

Title: _____

Date signed: _____

Attachment 2

FORM OF TRANSFER

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

_____ (include name and address of the transferee)
Warrants exercisable for common shares of Adherex Technologies Inc. (the "Company") registered in the name of the undersigned on the register of the Company maintained therefor, and hereby irrevocably appoints_____ the attorney of the undersigned to transfer the said securities on the books maintained by the Company with full power of substitution.

DATED this __ day of _____, 200__.

Signature of Transferor guaranteed by:

_____

_____
Signature of Transferor

_____

_____

_____
Address of Transferor

Notes:

The signature to this transfer must correspond with the name written upon the face of this Warrant Certificate in every particular without any changes whatsoever.

If the Transfer Form indicates that common shares are to be issued to a person or persons other than the registered holder of the Warrant Certificate, the signature on this Transfer Form must be guaranteed by a Schedule I chartered bank or licensed trust company, or a member of an acceptable medallion guarantee program. The guarantor must affix a stamp bearing the actual words "Signature Guaranteed". Signature guarantees are not accepted from Treasury Branches or credit unions unless they are members of the Stamp Medallion Program.

Portions of this exhibit marked [*] are requested to be treated confidentially.

AMENDMENT NO. 1
to
DEVELOPMENT AND LICENSE AGREEMENT
between
GLAXO GROUP LIMITED
and
ADHEREX TECHNOLOGIES INC.

THIS AMENDMENT NO. 1 (this "Amendment") effective on this 20th day of December, 2005 (the "Amendment Effective Date"), is entered into by and between **Glaxo Group Limited**, a company organized under the laws of England and Wales, having its registered office at GlaxoWellcome House, Berkeley Avenue, Greenford, Middlesex, UB6 0NN United Kingdom ("GGL") and **Adherex Technologies Inc**., a company organized under the laws of Canada and having an office located at 4620 Creekstone Drive, Suite 200, Durham, North Carolina, 27703 USA ("Adherex") with respect to the following facts:

RECITALS

A. The Parties have entered into the Development And License Agreement, effective as of July 14, 2005 ("Agreement").

B. The Parties now desire to amend the Agreement in certain respects on the terms and conditions set forth below.

NOW THEREFORE, in consideration of the foregoing premises and the mutual covenants set forth below, the Parties, intending to be legally bound, hereby amend the Agreement and otherwise agree as follows:

1. Definitions. All terms used in this Amendment but not defined herein shall have the same meaning as set forth in the Agreement.

2. Section 14.1. Section 14.1 of the Agreement is hereby amended in the entirety and replaced as follows:

> "14.1 Exherin™ Option. Upon the Effective Date, GGL or its Affiliate shall have an option (the "Exherin™ Option") to negotiate a worldwide, exclusive, sublicensable license from Adherex under all Exherin™ Patents and Exherin™ Know How (the "Exherin™ License Agreement"). No later than [*] from the date upon which Adherex has provided GGL or its

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[*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

Affiliate the Option Data (defined below), GGL or its Affiliate must notify Adherex in writing whether it wishes to exercise the Exherin™ Option. The Parties acknowledge and agree that GGL or its Affiliate will conduct and complete due diligence on Exherin™ prior to the earlier of (i) the date [*] following the Effective Date or (ii) [*]. Adherex further acknowledges that the decision of GGL or its Affiliate to exercise the Exherin™ Option is subject to management approval of GGL or its Affiliate. For purposes of this Section 14.1, the term "Option Data" means and includes all information with respect to the following items in the possession of Adherex as of the date such Option Data is provided by Adherex to GGL hereunder: [*]. Nothing herein shall require Adherex to do any further research and development in response to any of the items listed above."

3. Binding Effect. This Amendment shall be binding upon and inure to the benefit of the parties and their respective successors and assigns.

4. Waiver. Failure by either party to enforce any rights under this Amendment shall not be construed as a waiver of such rights nor shall a waiver by either party in one or more instances be construed as constituting a continuing waiver or as a waiver in other instances.

5. Severability. In the event that any section, paragraph, clause or phrase contained in this Amendment shall become illegal, null or void, or against public policy, for any reason, or shall be held by any court of competent jurisdiction to be illegal, null or void or against public policy, the remainder of this Amendment shall not be affected, and the parties shall revise the invalidated portions in a manner that will render such portions valid without impairing the parties' original intent.

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[*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

6. Governing Law. This Amendment will be construed, and the respective rights of the Parties determined, according to the substantive law of the State of North Carolina without regard to the provisions governing conflict of laws.

7. Counterparts. This Amendment may be executed in any two counterparts, each of which, when executed, will be deemed to be an original and both of which together will constitute one and the same document.

IN WITNESS WHEREOF, Glaxo Group Limited and Adherex Technologies Inc., by their duly authorized representatives, have executed this Amendment No. 1 as of the Amendment Effective Date.

GLAXO GROUP LIMITED

By: /s/ Richard Stephens

Name: Richard Stephens

Title: Assistant Company Secretary

ADHEREX TECHNOLOGIES INC.

By: /s/ William P. Peters

Name: William P. Peters

Title: Chairman/CEO

ADHEREX TECHNOLOGIES INC.
AMENDED AND RESTATED STOCK OPTION PLAN

PLAN DESCRIPTION
(Sept 2005 Version)

1. Purpose of the Plan

The purpose of the Adherex Technologies Inc. Amended and Restated Stock Option Plan is to develop the interest and incentive of eligible employees, directors and other service providers of ADHEREX TECHNOLOGIES INC. (the "Company"), in the Company's growth and development by providing incentives (thereby advancing the interests of the Company, enhancing the value of the Common Shares for the benefit of all the shareholders and increasing the ability of the Company to attract and retain skilled and motivated individuals in the service of the Company):

(a) to Employees of the Company, or its parent (if any) or any of its present or future subsidiaries (collectively, "Related Corporations"), by providing them with opportunities to purchase Common Shares (as defined below) of the Company pursuant to options granted hereunder that qualify as "incentive stock options" ("ISOs") under Section 422 of the Internal Revenue Code of 1986, as amended, or any successor statute (the "Code"); and

(b) to Directors, Employees and Service Providers of the Company and Related Corporations by providing them with opportunities to purchase Common Shares pursuant to options granted hereunder that do not qualify as ISOs (Nonstatutory Stock Options, or "NSOs").

Both ISOs and NSOs are referred to hereafter individually as "Options". As used herein, the terms "parent" and "subsidiary" mean "parent corporation" and "subsidiary corporation", respectively, as those terms are defined in Section 424 of the Code.

This Plan was adopted by the Board on March 18, 2005 (the "Effective Date"), subject to approval of the Plan by the shareholders of the Company.

2. Definitions

In this Plan:

(a) "Board" means the board of directors of the Company;

(b) "Committee" means the appropriate compensation committee, if any, appointed by the Board of Directors to administer the Plan;

(c) "Common Shares" means the Common Shares of the Company or, in the event of an adjustment contemplated in Section 8 hereof, such other securities to which a Participant may be entitled upon the exercise of an Option as a result of such adjustment;

(d) "Date of Grant" means the date a Participant is granted an Option to purchase Option Shares;

(e) "Director" means a person occupying the position of director on the Board of the Company or any Related Corporation;

(f) "Employee" means a full time employee of the Company or any Related Corporation;

(g) "Exchange" means the Toronto Stock Exchange or, if the Common Shares are not then listed and posted for trading on the Toronto Stock Exchange, on such stock exchange or quotation system on which such shares are listed, posted for trading or quoted as may be selected by the Committee.

(h) "Exercise Date" means the date the Company receives from the Participant a completed Stock Option Purchase Form with payment for the Option Shares being purchased;

(i) "Fair Market Value" at any date in respect of the Common Shares is the fair value of the Common Shares as determined by the Committee in its sole discretion. If, at the time an Option is granted under the Plan, the Common Shares are publicly traded and listed on the Exchange or the American Stock Exchange, "Fair Market Value" shall be equal to the closing price of the Common Shares on the Exchange or the American Stock Exchange on the trading day immediately preceding the Date of Grant; provided that if the Common Shares are then traded on the American Stock Exchange or on the Nasdaq National Market or the Nasdaq SmallCap Market, "Fair Market Value" shall, if the Common Shares are not then listed on the Exchange or the American Stock Exchange or otherwise if so determined by the Committee in its sole discretion, be equal to the closing sale price for such stock on such exchange or market trading day immediately preceding the Date of Grant.

(j) "Option Price" means the price per share at which a Participant may purchase Option Shares;

(k) "Option Shares" means the Common Shares of the Company which a Participant is entitled to purchase under the Plan;

(l) "Participants" means Directors, Employees and Service Providers to whom Options are granted pursuant to the Plan;

(m) "Plan" means the Adherex Technologies Inc. Stock Option Plan, as the same may be amended and restated from time to time;

(n) "Service Provider" means any person other than an Employee or Director, engaged to provide ongoing management, advisory or consulting services for the Company or a Related Corporation;

(o) "Stock Option Agreement" means (i) prior to March 18, 2005, the stock option agreement to be entered into between the Company and a Participant in the form of Appendix "A" and (ii) after such date, the stock option agreement to be entered into between the Company and a Participant in the form of Appendix "C"; and

(p) "Vesting Period" means the period(s) as stipulated herein or in the Stock Option Agreement that the Participant may purchase the Option Shares.

3. Eligibility and Number of Option Shares Subject to Plan

Participation in the Plan shall be limited to Participants who are designated from time to time by the Committee. ISOs may be granted to any Employee resident in the United States. Those officers of the Company who are not employees may not be granted ISOs under the Plan. NSOs may be granted to any Director, Employee or Service Provider. Participation shall be voluntary and the extent to which any Participant shall be entitled to participate in the Plan shall be determined by the Committee. Until changed in accordance with Section 16, the maximum number of shares issuable under this Plan shall be 5,600,000 Common Shares, subject to adjustment in accordance with Section 8. Granting of any Option to any individual or entity shall neither entitle that individual or entity to, nor disqualify him or her from,

participation in any other grant of Options. If any Option granted under the Plan shall expire or terminate for any reason without having been exercised in full or shall cease for any reason to be exercisable in whole or in part, or if the Company shall reacquire any shares issued pursuant to Options, the unpurchased shares subject to such Options and any shares so reacquired by the Company shall again be available for grants of Options under the Plan.

The selection of a Director or an officer who is a Reporting Person (as the terms "director" and "officer" are defined for purposes of Rule 16b-3) as a recipient of an Option, the timing of the Option grant, the exercise price, if any, of the Option and the number of shares subject to the Option shall be determined either (i) by the Board, or (ii) by a committee of the Board that is composed solely of two or more Non-Employee Directors having full authority to act in the matter. For the purposes of the Plan, a director shall be deemed to be a "Non-Employee Director" only if such person is defined as such under Rule 16b-3(b)(3), as interpreted from time to time.

No fractional shares may be purchased or issued hereunder.

4. Price for Shares; ISO Limitations

The Committee shall advise each Participant, as applicable, of the number of shares subject to such Participant's Option, the Option Price at which Option Shares may be purchased and the Vesting Period applicable to the Option. The Option Price at which the Option Shares may be purchased under the Plan shall be fixed by the Committee based upon the Fair Market Value of the Common Shares. The Committee may impose, in its discretion, performance thresholds which will need to be met prior to vesting of any Options granted.

The price per share specified in the Stock Option Agreement relating to each ISO granted under the Plan shall not be less than the Fair Market Value of the Common Shares on the date of such grant. In the case of an ISO to be granted to an employee owning stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Related Corporation, the price per share specified in the agreement relating to such ISO shall not be less than 110% of the fair market value per Common Share on the date of the grant.

To the extent that the aggregate Fair Market Value of the Common Shares (determined at the time an ISO is granted) for which ISOs granted to any employee are exercisable for the first time by such employee during any calendar year (under all stock option plans of the Company and any Related Corporation) exceeds US$100,000; or such higher value as permitted under Code Section 422 at the time of determination, such Options will be treated as NSOs, provided that this Section shall have no force or effect to the extent that its inclusion in the Plan is not necessary for Options issued as ISOs to qualify as ISOs pursuant to Section 422 of the Code. The rule of this Section shall be applied by taking Options in the order in which they were granted.

5. Exercise

Options granted under the Plan must be exercised within a period of seven (7) years from the Date of Grant, failing which the Option shall expire. Notwithstanding, Options granted under the Plan shall expire five (5) years from the Date of Grant in the case of ISOs granted to an employee owning stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Related Corporation. Unless otherwise determined by the Committee and specifically set forth in the Stock Option Agreement, the Vesting Periods during which Options or a portion thereof vest and may be exercised by the Participant shall be as follows:

one-third of the Option may be exercised after the first anniversary of the date of grant;

one-third of the Option may be exercised after the second anniversary of the date of grant; and
one-third of the Option may be exercised after the third anniversary of the date of grant.

Notwithstanding such vesting period or that certain vesting period set forth in the Stock Option Agreement, the Committee may, in its sole discretion, by written notice to any Participant, accelerate the vesting of all or any of the Options such that the Options become immediately fully vested. In such circumstances, the Committee may by written notice compel the Participant to exercise the Options within 30 days of the date of such written notice to exercise, failing which the Participant's right to purchase such Option Shares lapses.

The Committee in its discretion may require that the exercise of an Option shall be conditional on the Participant making any representations and warranty to the Company as may be required under applicable laws or regulations.

6. Payment

Except as otherwise provided in this Plan or the instrument evidencing the Option, an Option (or any part or installment thereof) shall be exercised by giving written notice to the Company at its principal office address to the attention of its Corporate Secretary. Such notice shall identify the Option being exercised and specify the number of shares as to which such Option is being exercised, accompanied by full payment of the exercise price therefor, if any, payable as follows (a) in Canadian or United States dollars in cash, check or money order, or (b) at the discretion of the Committee, by delivery of a notice that the grantee has placed a market sell order with a broker with respect to Common Shares then issuable upon exercise of the Option and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price, provided that payment of such proceeds is then made to the Company upon settlement of the sale or (c) at the discretion of the Committee, by any combination of (a) and (b) such other consideration and method of payment for the issuance of shares to the extent permitted by applicable law or the Plan. Notwithstanding, with regard to Options granted before March 18, 2005, such notice shall be in the form attached hereto as Appendix "B." If the Committee exercises its discretion to permit payment of the exercise price of an ISO by means of the methods set forth in clause (b) of the preceding sentence, such discretion shall be exercised in writing at the time of the grant of the ISO in question and such exercise shall also be governed by any terms set forth in the written agreement evidencing the grant of the Option.

7. Share Certificates

Upon exercise of an Option and payment in full of the purchase price, the Company shall cause to be delivered to the Participant within a reasonable period of time a duplicate certificate or certificates in the name of the Participant representing the number of Common Shares the Participant has purchased.

8. Adjustment in Shares

In the event of any subdivision, redivision or change of the Common Shares of the Company at any time prior to the expiration of the Option into a greater number of shares, the Company shall deliver at the time of any exercise thereafter of the Option such additional number of shares as would have resulted from such subdivision, redivision or change if such exercise of the Option hereby granted had been prior to the date of such subdivision, redivision or change. In the event of any consolidation or change of the Common Shares of the Company at any time prior to the expiration of the Option into a lesser number of shares, the number of shares deliverable by the Company on any exercise thereafter of the Option shall be reduced to such number of shares as would have resulted from such consolidation or change if such exercise of the Option hereby granted had been prior to the date of such consolidation or change. In all

such cases, any Option Price shall also be adjusted accordingly. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to the Option.

In the event of a proposed Change in Control (as defined below) of the Company, the Company shall give written notice thereof to each Participant holding Options under the Plan and such Participants shall be entitled to exercise all or a portion of the Option granted to such Participants, whether or not such Option has previously vested, within the 30 days period following the giving of such notice. To the extent the proposed Change in Control is not completed in a reasonable time, the Company may purchase at the Option Price the Option Shares acquired by the Participant pursuant to Options which would not have vested but for the acceleration of the Vesting Period as set forth in the preceding sentence. Upon the expiration of such 30 day period, all unexercised Options shall terminate and cease to have any further force and effect. “Change of Control” shall mean the acquisition (at one time or over a period of time) of shares of the Company or of securities (“Convertible Securities”) convertible into, exchangeable for or representing the right to acquire shares of the Company as a result of which a person, group of persons or persons acting jointly or in concert, or persons associated or affiliated within the meaning of the *Canada Business Corporation Act* with any such person, group of persons or persons acting jointly or in concert (collectively, the “Acquirors”), beneficially own shares of the Company and/or Convertible Securities that would entitle the holders thereof to cast more than 50% of the votes attaching to all shares in the capital of the Company that may cast to elect directors of the Company (assuming the conversion, exchange or exercise of Convertible Securities beneficially owned by the Acquirors). For the avoidance of doubt, a Change of Control shall not include a reverse takeover or other reorganization whereby the holders of shares and Convertible Securities of the Company immediately prior to such transaction beneficially own, following the completion of the transaction, shares of the parent or surviving corporation that would entitle the holders thereof to cast more than 50% of the votes attaching to all shares in the capital of such parent or surviving corporation that may cast to elect directors of such parent or surviving corporation. In the event of Change in Control of the Company, the Participant irrevocably agrees that any shares owned by him/her at the time of such Change in Control shall be tendered for sale in accordance with the terms of such Change in Control.

In the event of a transaction, including without limitation, a recapitalization or reorganization of the Company (other than a transaction described in the preceding paragraph) pursuant to which securities of the Company or of another corporation are issued with respect to the outstanding Common Shares, an optionee or grantee upon exercising an Options shall be entitled to receive for the purchase price paid upon such exercise the securities he or she would have received if he or she had exercised the Option immediately prior to such recapitalization or reorganization.

In the event of the proposed dissolution or liquidation of the Company, each Option will terminate immediately prior to the consummation of such proposed action or at such other time and subject to such other conditions as shall be determined by the Committee.

9. Termination Of Participant For Any Reason

In the event that a Employee’s employment is terminated for any reason, a Director shall cease to be a Director for any reason or a Service Provider ceases to provide services to the Company or a Related Corporation (and such person is a Participant), the Participant or the Participant’s legal representative, as the case may be, may elect to exercise any Option held by him or her (to the extent of the number of shares with respect to which he or she could have exercised it on the date of termination) at any time during the 30 day period following the date of such termination of employment or position on the Board or termination of services of a Service Provider (the “Participant Termination Date”), or if specifically

approved by the Board, at any time prior to the earlier of (x) the expiration date thereof, or (y) the date that is three (3) years following the Participant Termination Date, provided, however, in the event the grantee exercises any ISO after the date that is three months following the Participant Termination Date, such ISO will automatically be converted into an NSO subject to the terms of the Plan. If the Participant fails to exercise such Option prior to the Participant Termination Date (or such later date as specifically approved by the Board), such Option shall terminate. For the purposes of this Plan, the transfer of the Employee's employment to the Company or to Related Corporation shall not be considered a termination of employment and the Employee's rights under an Option shall be the same as if such transfer had not occurred. For purposes of this Plan, a change in status from Employee to Service Provider, or from Service Provider to Employee, will not constitute a termination of employment, provided that a change in status from an Employee to Service Provider may cause an ISO to become an NSO under the Code.

10. Transfer and Assignment

The Participant's rights under Options granted under the Plan are not assignable or transferable by the Participant or 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 obligations of each Participant shall be binding on his or her heirs, executors and administrators.

11. Employment and Board of Directors Position Non-Contractual

The granting of an Option to a Participant under the Plan does not confer upon the Participant any right to continue in the employment of the Company or any Related Corporation or as a member of the Board or as a Service Provider, as the case may be, nor does it interfere in any way with the rights of the Employee or of the Company's rights to terminate the Employee's employment at any time or of the shareholders' right to elect Directors.

12. Rights As Shareholders

Participants shall not have any rights as a shareholder with respect to Options until exercise and full payment has been made to the Company and a share certificate or share certificates have been duly issued.

13. Administration Of The Plan

The Plan shall be administered by (i) the Board or (ii) the Committee. The appointment of the members of, and the delegation of powers to, the Committee by the Board shall be consistent with applicable laws and regulations (including, without limitation, the Code, Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor rule thereto ("Rule 16b-3"), and any applicable state law (collectively, the "Applicable Laws")). Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time, the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws. Any determination with regard to the Plan by the Committee shall be final and conclusive on all persons affected thereby unless otherwise determined by the Board. The day-to-day administration of the Plan may be delegated to such officers and Employees as the Committee shall determine.

Subject to ratification of the grant or authorization of each Option by the Board (if so required by an Applicable Law), and subject to the terms of the Plan, if applicable,, the Committee, if so appointed, shall have the authority, in its discretion, to:

(i) determine the employees of the Company and Related Corporations (from among the class of employees eligible under Section 3 to receive ISOs) to whom ISOs may be granted, and to determine (from among the classes of individuals and entities eligible under Section 3 to receive NSOs) to whom NSOs may be granted;

(ii) determine the time or times at which Options may be granted (which may be based on performance criteria);

(iii) determine the number of Common Shares subject to any Option granted by the Committee;

(iv) determine the Option Price, which price shall not be less than the minimum price specified in Section 4 hereof, as appropriate;

(v) determine whether each Option granted shall be an ISO or NSO;

(vi) determine (subject to Section 5) the time or times when each Option shall become exercisable and the duration of the exercise period;

(vii) determine whether restrictions such as repurchase options are to be imposed on shares subject to Options and the nature of such restrictions, if any;

(viii) approve forms of agreement for use under the Plan;

(ix) accelerate vesting on any Option or to waive any forfeiture restrictions, or to waive any other limitation or restriction with respect to an Option;

(x) reduce the exercise price of any Option if the fair market value of the Common Shares covered by such Option shall have declined since the date the Option was granted, subject to prior approval of the Exchange, if applicable;

(xi) institute a program whereby outstanding Options can be surrendered in exchange for Options with a lower exercise price, subject to prior approval of the Exchange and/or shareholders of the Company, if applicable;

(xii) modify or amend each Option (subject to Section 5) including the discretionary authority to extend the post-termination exercisability period of Options longer than is otherwise provided for by terms of the Plan or the Option, subject to prior approval of the Exchange and/or shareholders of the Company, if applicable;

(xiii) construe and interpret the Plan and Options granted hereunder and prescribe and rescind rules and regulations relating to the Plan; and

(xiv) make all other determinations necessary or advisable for the administration of the Plan.

If the Committee determines to issue a NSO, it shall take whatever actions it deems necessary, under Section 422 of the Code and the regulations promulgated thereunder, to ensure that such Option is not treated as an ISO. The interpretation and construction by the Committee of any provisions of the Plan or of any Option granted under it shall be final unless otherwise determined by the Board. The Committee

may from time to time adopt such rules and regulations for carrying out the Plan as it may deem best. No member of the Board or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Option granted under it.

The Committee may select one of its members as its chairman, and shall hold meetings at such times and places as it may determine. Acts by a majority of the Committee, approved in person at a meeting or in writing, shall be the valid acts of the Committee. All references in this Plan to the Committee shall mean the Board if no Committee has been appointed. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies however caused, or remove all members thereof and thereafter directly administer the Plan.

Those provisions of the Plan that make express reference to Rule 16b-3 shall apply to the Company only at such time as the Company's Common Shares are registered under the Exchange Act, and then only to such persons as are required to file reports under Section 16(a) of the Exchange Act (a "Reporting Person").

To the extent that Options are to be qualified as "performance-based" compensation within the meaning of Section 162(m) of the Code, the Plan shall be administered by a committee consisting of two or more "outside directors" as determined under Section 162(m) of the Code.

The Committee, with the consent of any Participant, may in its discretion take such actions as may be necessary to convert a Participant's ISOs (or any instalments or portions of instalments thereof) that have not been exercised on the date of conversion into NSOs at any time prior to the expiration of such ISOs. These actions may include, but not be limited to, accelerating the exercisability, extending the exercise period or reducing the exercise price of the appropriate instalments of optionee's Options. At the time of such conversion, the Committee (with the consent of the optionee) may impose these conditions on the exercise of the resulting NSOs as the Committee in its discretion may determine, provided that the conditions shall not be inconsistent with the Plan. Nothing in the Plan shall be deemed to give any Participant the right to have such Participant's ISOs converted into NSOs, and no conversion shall occur until and unless the Committee takes appropriate action.

14. Notices

All written notices to be given by the Participant to the Company may be delivered personally or by registered mail, postage prepaid, addressed as follows:

Adherex Technologies Inc.
4620 Creekstone Drive, Suite 200
Durham, North Carolina 27703 USA
Attention: Corporate Secretary

Any notice given by the Participant pursuant to the terms of the Option shall not be effective until actually received by the Company at the above address. Any notice to be given to the Participant shall be sufficiently given if delivered personally or by postage prepaid mail to the last address of the Participant on the records of the Company and shall be effective seven days after mailing.

15. Corporate Action

Nothing contained in the Plan or in any agreement evidencing an Option shall be construed so as to prevent the Company or any Related Corporation from taking corporate action which is deemed by the Company or the Related Corporation to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan.

16. Amendments

The Board shall have the right, in its sole discretion, to alter, amend or discontinue the Plan from time to time and at any time. No such amendment or discontinuation, however, may, without the consent of the Participant, alter or impair the Participant's rights or increase the Participant's obligations under the Plan. Any material amendment to the Plan or existing options is subject to prior approval of the Exchange and/or any other stock exchange on which Common Shares may then be listed and may require the approval of the Company's shareholders. The Plan shall expire 10 years after the Effective Date (except as to Options outstanding on that date).

17. Interpretation

In construing this Plan, the singular shall include the plural and the masculine gender shall include the feminine and neuter, unless the context otherwise requires.

18. Government Regulation

The Company's obligation to issue and deliver Common Shares under any Option is subject to:

(a) the satisfaction of all requirements under applicable securities law in respect thereof and obtaining all regulatory approvals as the Company shall determine to be necessary or advisable in connection with the authorization, issuance or sale thereof, including shareholder approval, if required;

(b) the admission of such Common Shares to listing on the Exchange or any other stock exchange on which Common Shares may then be listed; and

(c) the receipt from the Participant of such representations, agreements and undertakings as to future dealings in such Common Shares as the Company determines to be necessary or advisable in order to safeguard against the violation of the securities law of any jurisdiction.

In this connection, the Company shall take all reasonable steps to obtain such approvals and registrations as may be necessary for the issuance of such Common Shares in compliance with applicable securities law and for the listing of such Common Shares on any Exchange on which such Common Shares are then listed.

19. Withholding of Additional Income Taxes

Upon the exercise of an NSO for less than the Fair Market Value of the Common Shares or the making of a Disqualifying Disposition (as defined in Section 20), the Company, in accordance with Section 3402(a) of the Code and any applicable state statute or regulation, may require the Participant to pay to the Company additional withholding taxes in respect of the amount that is considered compensation includable in such person's gross income. With respect to the exercise of an Option, the Committee in its discretion may condition such event on the payment by the Participant of any such additional withholding taxes.

At the sole and absolute discretion of the Committee, the holder of Options may pay all or any part of the total estimated federal and state income tax liability arising out of the exercise or receipt of such Options or the making of a Disqualifying Disposition (each of the foregoing, a "Tax Event") by tendering already-owned Common Shares (except in the case of a Disqualifying Disposition) by directing the Company to withhold Common Shares otherwise to be transferred to the holder of such Options as a result of the exercise or receipt thereof in an amount equal to the estimated federal and state income tax liability arising out of such event, provided that no more shares may be withheld than are necessary to satisfy the holder's actual minimum withholding obligation with respect to the exercise of Options. In such event, the holder of Options must, however, notify the Committee of his or her desire to pay all or any part of the total estimated federal and state income tax liability arising out of a Tax Event by tendering already-owned Common Shares or having Common Shares withheld prior to the date that the amount of federal or state income tax to be withheld is to be determined. For purposes of this Section 19, Common Shares shall be valued at their Fair Market Value on the date that the amount of the tax withholdings is to be determined.

20. Notice to Company of Disqualifying Disposition

Each Employee who receives an ISO must agree to notify the Company in writing immediately after the Employee makes a Disqualifying Disposition (as defined below) of any Common Shares acquired pursuant to the exercise of an ISO. A "Disqualifying Disposition" is any disposition (including any sale) of such Common Shares before either (a) two years after the date the Employee was granted the ISO, or (b) one year after the date the Employee acquired Common Shares by exercising the ISO. If the employee has died before such stock is sold, these holding period requirements do not apply and no Disqualifying Disposition can occur thereafter.

21. Lock-up Agreement

Each recipient of securities hereunder agrees, in connection with the first registration with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, of the public sale of the Company's Common Shares, not to sell, make any short sale of, loan, grant any option for the purchase of or otherwise dispose of any securities of the Company (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180 days) from the effective date of such registration as the Company or the underwriters, as the case may be, shall specify. Each such recipient agrees that the Company may instruct its transfer agent to place stop-transfer notations in its records to enforce this Section 21. Each such recipient agrees to execute a form of agreement reflecting the foregoing restrictions as requested by the underwriters managing such offering.

Appendix "A"
Adherex Technologies Inc.

Stock Option Plan

Stock Option Agreement

Date: _____

Dear _____:

This is to advise you that you have been granted an option (the "option") to purchase _____ Common Shares at a price of $_____ per share under the Adherex Technologies Inc. Stock Option Plan (the "Plan").

This option expires on the later of seven years following the date of grant, which appears on the right hand corner of this Notice, subject to other conditions of the Plan.

Subject to such expiry and the other provisions of the Plan, this option is exercisable in such amounts and at any time on or after:

_____ shares on _____, 200__.

This option is subject to the terms of the Plan.

Please refer to the Plan explanatory document for any additional information regarding the exercise of your option and completion of the Option Exercise Form. Please execute a copy of this grant where indicated below and deliver it to the Corporate Secretary of the Company c/o Adherex Technologies Inc., 4620 Creekstone Drive, Suite 200, Durham, North Carolina 27703, to acknowledge your acceptance of the terms hereof.

Sincerely,
ADHEREX TECHNOLOGIES INC.

Per: _____

I have read, understood and accept the vesting provisions above and each of the terms and conditions described in a document called Adherex Technologies Inc. Stock Option Plan and accept the foregoing grant of options on such basis.

Dated the __ day of _____, _____.

_____
Signature

Appendix "B"
Adherex Technologies Inc.

Stock Option Plan

Option Exercise Form

Part 1: Identification

Name of Participant	Service
Address	Office Telephone Number
Social Insurance Number	Home Telephone Number

Part 2: Option

I hereby exercise the Option granted to me by letter dated _____ under the Plan.

Total number of option stock exercised: _____

Method of payment: (a) Cash
(b) Certified Cheque
(c) Bank Draft
(d) Money Order

Amount: _____
Number of shares: _____ (value:_____)

I hereby acknowledge that I have read, understood and accepted each and all the terms and conditions described in a document called "Adherex Technologies Inc. Stock Option Plan".

Given at _____ , this, __ day of _____

_____
Signature

Appendix "C"
Adherex Technologies Inc.
Stock Option Plan

Adherex Technologies Inc.
AMENDED AND RESTATED STOCK OPTION PLAN
NOTICE OF STOCK OPTION GRANT

(Optionee and address)

Grant Number

You have been granted an option to purchase Common Shares of Adherex Technologies Inc. (the "Company"), as follows:

Date of Grant	
Vesting Commencement Date	
Exercise Price per Share	$
Total Number of Shares Granted	
Total Exercise Price	
Type of Option:	_____ Incentive Stock Option
	_____ Nonstatutory Stock Option
Term/Expiration Date:	7 Years/ _____

Vesting Schedule: Subject to accelerated vesting as set forth in the Plan or in the Stock Option Agreement, (i) one-third of the shares subject to this option shall vest and may be exercised after the first anniversary of the Vesting Commencement Date; (ii) one-third of the shares subject to this option shall vest and may be exercised after the second anniversary of the Vesting Commencement Date; and (iii) the remaining shares subject to this option shall vest and may be exercised after the third anniversary of the Vesting Commencement Date.

Termination Period: Option may be exercised for up to 30 days after termination of director, employment or service provider relationship for any reason (unless specifically extended by the Board as set forth in the Plan, but in no event later than the Expiration Date) and will terminate if not exercised prior to the end of such period.

By your signature and the signature of the Company's representative below, you and the Company agree that this option is granted under and governed by the terms and conditions of the Adherex Technologies Inc., Amended and Restated Stock Option Plan (the "Plan") and the Stock Option Agreement, all of which are attached and made a part of this document.

Dated: _____

OPTIONEE:

ADHEREX TECHNOLOGIES INC.

By:
Name:
Title:

Print Name

STOCK OPTION AGREEMENT

1. Grant of Option. Adherex Technologies Inc., a Canadian corporation (the "Company"), hereby grants to the Optionee named in the Notice of Grant (the "Optionee"), an option (the "Option") to purchase a total number of Common Shares (the "Shares") set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price") subject to the terms, definitions and provisions of the Adherex Technologies Inc., Amended and Restated Stock Option Plan (the "Plan") adopted by the Company, which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option.

If designated an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code, or any successor provision.

2. Exercise of Option. This Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and with the provisions of the Plan as follows:

(a) Right to Exercise.

(i) This Option may not be exercised for a fraction of a share.

(ii) In the event of the termination of Optionee's relationship with the Company or any Related Corporations as an Employee, Director or Service Provider (for any reason whatsoever), the exercisability of the Option is governed by Section 9 of the Plan, subject to the limitation contained in subsection 2(a)(iii) of this Stock Option Agreement.

(iii) In no event may this Option be exercised after the Expiration Date set forth in the Notice of Grant.

(b) Method of Exercise. This Option shall be exercisable by written notice (in the form attached hereto as Exhibit A) which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by the Optionee and shall be delivered in person or by registered mail to the Corporate Secretary of the Company. The written notice shall be accompanied by payment of the Exercise Price. This Option shall be deemed to be exercised upon receipt by the Company of such written notice accompanied by the Exercise Price.

No Shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of law and the requirements of any Exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares.

3. Method of Payment. Payment of the Exercise Price shall be made as set forth in Section 6 of the Plan.

4. Restrictions on Exercise. This Option may not be exercised until such time as the Plan and the Shares covered by this Option have been approved by the shareholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal, provincial or state securities or other applicable law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations ("Regulation G") as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

5. Nontransferability of Option. This Option may not be transferred in any manner whatsoever and may be exercised during the lifetime of Optionee only by Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

6. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant and the Plan, and may be exercised during such term only in accordance with the Plan and the terms of this Option. The limitations set out in Section 4 of the Plan regarding Options designated as Incentive Stock Options and Options granted to more than ten percent (10%) stockholders shall apply to this Option.

7. Taxation Upon Exercise of Option. Optionee understands that, upon exercising a Nonstatutory Stock Option, he or she may recognize income for tax purposes in an amount equal to the excess of the then Fair Market Value of the Shares over the exercise price. If the Optionee is an employee, the Company may be required to withhold from Optionee's compensation, or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income. Additionally, the Optionee may at some point be required to satisfy tax withholding obligations with respect to the Disqualifying Disposition of an ISO. The Optionee shall satisfy his or her tax withholding obligation arising upon the exercise of this Option by one or some combination of the following methods: (i) by cash payment, or (ii) out of Optionee's current employment compensation.

8. Tax Consequences. THERE ARE TAX CONSEQUENCES RESULTING FROM THE EXERCISE OF THIS OPTION OR DISPOSITION OF THE SHARES ACQUIRED PURSUANT TO THIS OPTION. OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

9. Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.

10. Interpretation. Any dispute regarding the interpretation of this Agreement shall be submitted by Optionee or by the Company forthwith to the Committee, which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Committee shall be final and binding on the Company and on Optionee.

11. Severability. Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

12. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States mail by registered mail, with postage and fees prepaid, addressed to the other party at its address as shown below beneath its signature, such address as may be set forth in Section 14 of the Plan or to such other address as such party may designate in writing from time to time to the other party.

13. Further Instruments. The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

14. Stock Plan. Optionee acknowledges receipt of a copy of the Plan and represents that Optionee is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan or this Option.

EXHIBIT A

EXERCISE NOTICE

_____

_____

_____

Attention: _____

1. Exercise of Option. Effective as of today, the undersigned ("Optionee") hereby elects to exercise Optionee's option to purchase _____ Common Shares (the "Shares") of Adherex Technologies Inc. (the "Company"), under and pursuant to the Company's Amended and Restated Stock Option Plan, as amended (the "Plan") and the __ Incentive __ Nonstatutory Stock Option Agreement dated _____ ____, _____ (the "Option Agreement"). The purchase price for the Shares shall be $_____ as required by the Option Agreement. Optionee herewith delivers to the Company the full Exercise Price for the Shares.

2. Representations of Optionee. Optionee acknowledges that Optionee has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

3. Compliance with Securities Laws. Optionee understands and acknowledges that, notwithstanding any other provision of the Option Agreement to the contrary, the exercise of any rights to purchase any Shares is expressly conditioned upon compliance with the Securities Act of 1933, as amended (the "Securities Act"), all applicable state, provincial or other federal securities laws and all applicable requirements of any Exchange or over the counter market on which the Common Shares may be listed or traded at the time of exercise and transfer. Optionee agrees to cooperate with the Company to ensure compliance with such laws.

4. Rights as Stockholder. Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the optioned Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in the Plan.

5. Tax Consultation. Optionee understands that Optionee may suffer adverse tax consequences as a result of Optionee's purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultants Optionee deems advisable in connection with the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.

6. Entire Agreement. The Plan and Notice of Grant/Option Agreement are incorporated herein by reference. This Exercise Notice, the Plan and the Notice of Grant/Option Agreement executed and delivered to Company by Optionee shall constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and is governed by North Carolina law except for that body of law pertaining to conflict of laws.

Submitted by:

OPTIONEE:

_____

Address: _____

_____

Accepted by:

ADHEREX TECHNOLOGIES INC.

By: _____

Name: _____

Title: _____

PARTIAL ASSIGNMENT OF LEASE
AND
LEASE AMENDMENT NUMBER TWO

This PARTIAL ASSIGNMENT OF LEASE AND LEASE AMENDMENT NUMBER TWO entered into this 31st day of August, 2005 (the "Second Amendment"), by and between **HIGHWOODS REALTY LIMITED PARTNERSHIP,** a North Carolina limited partnership, (the "Landlord"); **BIOSTRATUM, INC.**, a Delaware corporation (the "Assignor"), and **ADHEREX, INC.**, a Delaware corporation (the "Tenant").

W I T N E S S E T H:

WHEREAS, Assignor and Landlord entered into that certain Lease Agreement dated September 8, 2000 (the "Original Lease"), as amended by that certain Lease Amendment Number One dated August 31, 2005 (the "First Amendment"), the Original Lease and the First Amendment collectively referred to as the "Lease", for space designated as Suite 200, comprising approximately 35,600 rentable square feet, in the Maplewood Building, located at 4620 Creekstone Drive, Creekstone Office Park, Durham, Durham County, North Carolina; and

WHEREAS, Assignor is assigning the Premises to Tenant (approximately 18,272 rentable square feet) and Tenant and Landlord have agreed to extend the Lease in regards to that portion of the Premises being assigned to Tenant;

NOW THEREFORE, in consideration of the mutual and reciprocal promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Landlord, Assignor and Tenant hereby agree to assign and amend the Lease as follows:

Assignment of Lease

1. *Assignment*. Assignor hereby assigns, sets over and transfers to Tenant all of Assignor's rights, title and interest in and to the Premises containing approximately 18,272 square feet as shown in Exhibit A; provided that in assigning its interests Assignor is not assigning its rooftop license and related right to maintain equipment on the Building of the Premises and these rights shall be assigned to CountryWide Home Loans, Inc. ("CountryWide"), in conjunction with the assignment of Assignor's sublease with CountryWide to Landlord.
2. *Ratification of Lease*. All of the terms, covenants and conditions of the Lease are hereby ratified and reaffirmed by all parties hereto as amended.
3. *Acceptance*. Tenant hereby accepts this Assignment and agrees to assume and be bound by all of the terms of the Lease (a copy of which Tenant has received and reviewed) beginning on January 1, 2006. In conjunction with the Assignment, Landlord shall provide Tenant with Building keys (card access or keys).
4. *Release.* Landlord confirms that this Assignment shall release Assignor from any liability under the Lease for the Premises as defined herein.
5. *Landlord's Consent*. Landlord consents to this Assignment. However, such consent shall not constitute consent to any future assignments or subletting of the Premises. If Landlord executes this document prior to execution by Tenant and Assignor, it is understood that Landlord's execution shall not be deemed to be effective until Assignor and Tenant have both executed this document and Landlord is provided with a fully executed original.

Lease Amendment Number Two

1. *Premises*. Effective January 1, 2006, Section One of the Lease, entitled "Leased Premises", shall be amended to provide that the Premises shall be that area shown in Exhibit A attached (which shall replace the existing Exhibit A), constituting approximately 18,272 rentable square feet on the first and second floor of the Building, and designated as Suites 200 and 140. Approximately 18,234 rentable square feet of the Premises shall be located in Suite 200. Approximately 38 rentable square feet of Premises shall be located in Suite 140.

2. *Term*. Effective on January 1, 2006, Section Two of the Lease, entitled "Term", shall be amended to extend the Term of the Lease so that the Expiration Date becomes August 31, 2012.

3. *Base Rent.* Effective on January 1, 2006, Section Four of the Lease, entitled "Rent", shall be amended to provide that cumulative Base Rent during from January 1, 2006 through the extended Term shall be $2,157,745.64, to be payable in equal monthly installments in accordance with the following rent schedule (which shall replace the rent schedule provided in the Lease):

MONTHS	MONTHLY RENT	CUMULATIVE RENT
1/1/06-8/31/07	$ 13,000.00	$ 260,000.00
9/1/07-8/31/08	$ 29,787.42	$ 357,449.04
9/1/08-8/31/09	$ 30,681.05	$ 368,172.60
9/1/09-8/31/10	$ 31,601.48	$ 379,217.76
9/1/10-8/31/11	$ 32,549.52	$ 390,594.24
9/1/11-8/31/12	$ 33,526.00	$ 402,312.00
BASE RENT:		**$ 2,157,745.64**

The above rent schedule does not include operating expense pass through adjustments to be computed annually in accordance with Lease Addendum Number Two as amended herein.

4. *Security Deposit.* Effective January 1, 2006, Section Five of the Lease, entitled "Security Deposit", shall be amended to provide that the sum to be deposited with Landlord shall be $28,078.00 and that Tenant shall not have the right to reduce the Security Deposit during the Term.

5. *Tenant's Acceptance and Maintenance of Premises.* Effective January 1, 2006, Section Seven of the Lease, entitled "Tenant's Acceptance and Maintenance of Premises", shall be amended to provide that as part of its maintenance obligation, Tenant shall be solely responsible for maintenance of the supplemental HVAC system installed in the lab. In order to assist Tenant in its maintenance obligation, prior to January 1, 2006, Landlord shall provide Tenant with a report from ARS regarding the condition of the system. Tenant shall be responsible for the payment of all electrical charges read from meters installed in the laboratory and Tenant shall have the obligation to maintain and pay metered electrical charges as provided in the First Amendment. Upon the expiration or termination of the Lease, Tenant shall be responsible for restoring the Premises to the same condition as exist on January 1, 2006, ordinary wear and tear and damage by casualty excepted, and removing any supplemental HVAC, fume hoods, or generator (including wiring and cabling) that may be installed.

6. *Signs.* Effective January 1, 2006, Section Ten of the Lease, entitled "Signs", shall be amended to delete any reference to a Workletter and to provide that Tenant shall have the right to Building standard suite and directory signs and that so long as Tenant is not in default of the Lease and has not assigned or subleased all or a portion of the Premises, Tenant shall have the right to parapet signage; provided that all costs and expenses of parapet signage shall be Tenant's responsibility, Landlord shall have the right to approve and agree to the appearance of the sign (its color, font and design), and Tenant shall be responsible for ensuring that the sign complies with relevant laws and building codes. Tenant shall not have the right to modify the parapet sign, except with Landlord's approval. Tenant shall be required to remove its name from the parapet sign upon the expiration or termination of the Lease and be responsible for any restoration that may be required as a result of the removal.

7. *Insurance Requirements*. Section Thirteen of the Lease, entitled "Insurance Requirements", shall be amended to provide that Tenant's Property shall include any improvements that it pays for directly (without the use of a Landlord-provided allowance).

8. *Notices.* Effective January 1, 2006, the address for notice to Tenant, provided in Section 24, entitled "Notices", shall change to the following:

LEGAL NOTICE
ADDRESS FOR
TENANT: **ADHEREX, INC.**
4620 Creekstone Drive, Suite 200
Durham, North Carolina 27703
Attn: Scott Murray, General Counsel
Facsimile #: 919/484-8001

9. *Brokers' Commissions.* Section 26 of the Lease, entitled "Broker's Commissions", shall be amended to provide that Tenant has not dealt with any real estate broker, finder or other person with respect to this Second Amendment and the extension of the Lease, except for Corporate Realty Advisors, through John Stubbs, whose address is 5511 Capital Center Drive, Suite 320, Raleigh, North Carolina 27606.

10. *Additional Rent – Operational Expense Pass Throughs.* Effective on January 1, 2006, Lease Addendum Number Two, entitled "Additional Rent – Operating Expense Pass Throughs", shall be amended to provide that Tenant's Base Year shall be the calendar year commencing on January 1, 2006 and that Tenant's Proportionate Share shall be calculated by dividing the approximately 18,272 rentable square feet of the Premises by the 35,600 rentable square feet of the Building which equals 51.3258%.

11. *Option to Extend Lease Term.* Lease Addendum Number Three, entitled "Option to Extend Lease Term", shall be amended to delete paragraph 4 thereof and provide that Tenant shall have the right and option to extend the Lease for one five year term, upon the expiration of the existing term, upon nine month's prior notice to Landlord, and that Base Rent shall be the then existing fair market rental rate and the extension shall be under market terms and conditions. In all other respects, Lease Addendum Number Three shall remain unchanged.

12. Guaranty. Effective January 1, 2006, the attached Guaranty will be incorporated into the Lease.

13. *Miscellaneous.* The foregoing is intended to be an addition and a modification to the Lease. Unless otherwise defined herein, all capitalized terms used in this Second Amendment shall have the same definitions ascribed in the Lease. Except as modified and amended by this Second Amendment, the Lease shall remain in full force and effect. If anything contained in this Second Amendment conflicts with any terms of the Lease, then the terms of this Second Amendment shall govern and any conflicting terms in the Lease shall be deemed deleted in their entirety.

14. *Tenant Acknowledgment.* Tenant acknowledges that to the best of its knowledge Landlord has complied with all of its obligations under said Lease to date, and, to the extent not expressly modified hereby, all of the terms and conditions of said Lease shall remain unchanged and in full force and effect.

[REMAINDER OF PAGE INTENTIONALLY BLANK
SIGNATURE BLOCKS ON NEXT PAGE]

IN WITNESS WHEREOF, Tenant and Landlord have caused this instrument to be executed as of the date first above written, by their respective officers or parties thereunto duly authorized.

Assignor:

BIOSTRATUM, INC.
a Delaware corporation

By: /s/ Gary M. Gordon

Name: Gary Gordon, M.D.

Title: Vice President and Chief Financial Officer

Date: August 5, 2005

Attest: _____

_____ Secretary

Tenant:

ADHEREX, INC.
a Delaware corporation

By: /s/ James A. Klein, Jr.

Name: James A. Klein, Jr.

Title: Chief Financial Officer

Date: August 17, 2005

Attest: _____

_____ Secretary

Corporate Seal:

Landlord:

HIGHWOODS REALTY LIMITED PARTNERSHIP
a North Carolina limited partnership

By: Highwoods Properties, Inc., its general partner
a Maryland corporation

By: /s/ Robert G. Cutlip
Robert G. Cutlip,
Senior Vice President and Regional Manager

Date: August 31, 2005

Attest: /s/ Cynthia A. Morgan

Cynthia A. Morgan, Assistant Secretary

Corporate Seal:

EXHIBIT A

PREMISES

5

GUARANTY OF LEASE

This Guaranty is made as of the 17th day of August, 2005, by ADHEREX TECHNOLOGIES, INC., whose address is 4620 Creekstone Drive, Suite 200, Durham, North Carolina ("Guarantor"), in favor of HIGHWOODS REALTY LIMITED PARTNERSHIP ("Landlord"), whose address is 3100 Smoketree Court, Suite 600, Raleigh, North Carolina 27604 (the "Guaranty").

1. Lease. The "Lease" shall mean that certain amended Office Lease dated September 8, 2000, by and between Landlord and Biostratum, Inc. ("Assignor") for the property located at 4620 Creekstone Drive, Durham, North Carolina and all extensions, renewals, amendments, supplements or modifications thereto; which Lease is being assigned to ADHEREX INC, pursuant to a Partial Assignment of Lease and Lease Amendment Number Two.

2. Purpose and Consideration. The execution and delivery of this Guaranty by Guarantor is a condition to Landlord's assigning the Lease to Tenant and is made to induce Landlord to enter into the Lease. Guarantor is a Canadian corporation and the parent (owner of 100% of Tenant's stock) of Tenant, a Delaware corporation.

3. Guaranty. Guarantor hereby absolutely, unconditionally and irrevocably, guarantees the compliance with and performance by Tenant of each of the provisions, covenants, agreements and conditions applicable to Tenant contained in the Lease and guarantees the full and prompt payment by Tenant of the Base Rent, Additional Rent and other amount payable by Tenant under the Lease, as and when the same become due, whether by acceleration or otherwise. This is a Guaranty of payment and not of collection.

4. Guaranty as Independent. The obligations of Guarantor hereunder are independent of the obligations of Tenant, and Guarantor expressly agrees that a separate action or actions may be brought and prosecuted against Guarantor whether or not any action is brought against Tenant and whether or not Tenant is joined in any action against Guarantor and that Landlord may pursue any rights or remedies it has under the Lease and under this Guaranty in any order or simultaneously or in any other manner.

5. Authorizations to Landlord. Subject to the agreement of the parties, Guarantor authorizes Landlord, without notice or demand and without affecting Guarantor's liability hereunder, from time to time to (i) change, amend, modify or alter any of the terms, covenants, agreements, or conditions contained in the Lease; (ii) extend or renew the Lease; (iii) change, renew, compromise, extend, accelerate or otherwise change the time for payment of any amounts payable under the Lease; (iv) consent to any assignment, sublease, pledge or transfer of the Lease by Tenant or of Tenant's interest in the Premises; (v) release Tenant and substitute any one or more parties as Tenants or sublessees under the Lease; (vi) waive or fail to take action with respect to any default by Tenant under the Lease; and (vii) waive or fail to take action with respect to any remedy under the Lease.

6. Application of Payments Received by Landlord. Any sums of money that Landlord receives from or on behalf of Tenant may be applied by Landlord to reduce any indebtedness of Tenant to Landlord as Landlord, in its sole discretion, deems appropriate.

7. Waiver by Guarantor. Guarantor hereby waives (i) any right to require Landlord to proceed against, give notice to or make demand upon Tenant; (ii) any right to require Landlord to pursue any remedy of Landlord; (iii) any right to participate in or to direct the application of any security held by Landlord; (iv) any defense arising out of any disability or other defense of Tenant, including cessation, impairment, modification, or limitation, from any cause, of liability of Tenant or of any remedy for the enforcement of such liability; and (v) any rights under N.C.G.S. 26-7 et seq.

8. Subordination by Guarantors. Guarantor hereby agrees that any indebtedness of Tenant to Guarantor, whether now existing or hereafter created, shall be subordinated to any indebtedness of Tenant to Landlord.

9. Notices and Demands. All notices and demands under this Guaranty shall be in writing and shall be deemed properly given and received when actually given and received three (3) business days after mailing, (i) if sent by registered or certified United States mail, postage prepaid, return receipt requested, addressed to the party to receive the notice or demand at the address set forth for such party in the first paragraph of this Guaranty or at such other address as either party may notify the other in writing or (ii) delivered to a nationally recognized overnight courier service for next business day delivery, to its addressee at such party's address as set forth above. A copy of any notices given by Guarantor to Landlord shall be sent, to Highwoods Properties, Inc., 3100 Smoketree Court, Suite 600, Raleigh, North Carolina 27604.

10. Payment of Costs of Enforcement. In the event any action or proceeding is brought to enforce this Guaranty and if Landlord is held entitled to recovery against Guarantor, Guarantor agrees to pay all costs and expenses of Landlord in connection with such action or proceeding, including reasonable attorneys' fees.

11. Binding Effect. This Guaranty shall be binding upon Guarantor and its heirs, personal representatives, successors and assigns and shall inure to the benefit of Landlord and its successors and assigns.

12. Severability. If any provision of this Guaranty shall be held invalid or unenforceable, the remainder of this Guaranty shall not be affected thereby and there shall be deemed substituted for the affected provision, a valid and enforceable provision as similar as possible to the affected provision.

13. Governing Law. This Guaranty shall be interpreted under and enforced according to the laws of the State in which the Premises are located.

14. Captions for Convenience. The headings and captions hereof are for convenience only and shall be not considered in interpreting the provisions hereof.

15. Unless otherwise defined herein, all capitalized terms shall have the same meaning as set forth in the Lease.

IN WITNESS WHEREOF, Guarantor has caused this Guaranty to be executed under seal the day and year first above written.

GUARANTOR:

Adherex Technologies, Inc.

By: /s/ James A. Klein, Jr.

Name: James A. Klein, Jr.

Title: Chief Financial Officer

[CORPORATE SEAL]

Exhibit 4.39

HIGHWOODS REALTY LIMITED PARTNERSHIP

OFFICE LEASE

Exhibit 4.39

LEASE SUMMARY, TABLE OF CONTENTS AND ATTACHMENT LIST

Lease Summary

Tenant:	**BIOSTRATUM, INC.**	
	4825 Creekstone Drive, Suite 200	
	Durham, North Carolina 27703	
Premises:	Suite	entire building (initially occupy suite 200)
	Usable Square Feet	
	Core Factor	
	Rentable Square Feet	35,600
Term:	Commencement Date:	April 1, 2001
	Expiration Date:	March 31, 2008
Rent:	Initial Monthly Base Rent:	$

ALL RENTS ARE DUE ON THE 1st DAY OF EACH MONTH

SEND ALL RENT CHECKS TO:

HIGHWOODS REALTY LIMITED PARTNERSHIP
Post Office Box 65183
Charlotte, North Carolina 28265-0183
Tax ID#: 56-1869557

Additional Rents:

Pro Rata Share	100%
Base Year TICAM	1/1/01-12/31/01

Expense Paid Directly By Tenant: all electricity

SecurityDeposit: $ 418,893.36 (can substitute letter of credit; reduces over time)

Renewal Options:

Number of Options	1
Number of Years	3
Notice Requirement	360 days

Broker: Paul Munana
Corporate Realty Advisors
5511 Capital Center Drive, Suite 320
Raleigh, North Carolina 27607

Commission Paid: by Landlord

Special Commission Terms: n/a

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x	E.	Confidentiality Agreement
x	F.	Memorandum of Lease
x	G.	Building and Standard Improvements
x	H.	Signage

Exhibit 4.39

NORTH CAROLINA:
WAKE COUNTY:

LEASE

THIS LEASE ("Lease"), made this 8th day of September, 2000 by and between **HIGHWOODS REALTY LIMITED PARTNERSHP**, a North Carolina limited partnership, ("Landlord") and **BIOSTRATUM, INC.**, a Delaware corporation, ("Tenant"), provides as follows:

1. **LEASED PREMISES.**

a. *Premises*. Landlord leases to Tenant and Tenant leases from Landlord approximately 35,600 rentable square feet located in what is sometimes called the Maplewood Building (the "Building"), located at 4620 Creekstone Drive, Creekstone Office Park, Durham, Durham County, North Carolina (the "Premises"), as more particularly shown on Exhibit A, attached hereto. The Premises consists of the entire space within the Building.

b. *Rentable Square Foot Determination*. The usable area of the Premises is approximately 34,518 square feet. The rentable square footage of the Premises has been determined by multiplying the useable square feet by the core area factor of 1.03132. For purposes of the Tenant Improvements Allowance, however, the approximate useable square footage is 31,346. The parties acknowledge that all square foot measurements are approximate.

c. *Space to be Measured by BOMA Standard*. The usable square feet of the Premises, the core factor and the rentable square feet have been determined by the an Architect selected by Landlord using the American National Standard Method of Measuring Floor Areas in Office Buildings, 1996 Edition, as published by Building Owners and Managers Association International ("BOMA Standard"). Landlord shall provide to Tenant the Architect's determination and calculations. If Tenant disputes the Architect's determination, then Tenant may at its own expense retain a licensed Architect to measure the space using the BOMA standard prior to the Commencement Date. In the event there is a discrepancy in the two measurements, the two architects will meet to resolve the discrepancy. If the two architects cannot agree on the measurement, then Landlord and Tenant shall select a third architect who will measure the space according to the current BOMA standard, and the decision of this third architect shall be final and binding upon both parties. Both parties shall pay one half (1/2) of the cost of the third architect. Upon the determination of the measurements of the Premises as set forth above, the parties shall amend this Lease to correct all applicable provisions affected by the measurement.

2. **TERM**.

a. *Commencement and Expiration Dates*. This Lease Term ("Term") is for eighty-four (84) months, commencing April 1, 2001 ("Commencement Date"), and expiring at midnight on March 31, 2008 ("Expiration Date").

b. *Adjustments to Commencement Date*. The Commencement Date shall be adjusted as follows:

i. If Tenant requests possession of the entire Premises prior to the Commencement Date, and Landlord consents, the Commencement Date shall be the date of possession. All rent and other obligations under this Lease shall begin on the date of possession, but the Expiration Date shall remain the same. If Tenant requests possession of only part of the Premises prior to the Commencement Date, and Landlord consents, then rent payments shall be pro rated on square foot basis to reflect the amount of the Premises being occupied by the Tenant prior to the Commencement Date. Tenant's obligation to pay rent for the remainder of the Premises shall not commence until the Commencement Date. The Expiration Date shall remain the same.

ii. If Landlord cannot complete the building shell prior to the Commencement Date for any reason other than delays caused by changes to the building shell which have been requested by Tenant, then the Commencement Date, Expiration Date, and all other dates that may be affected by their change, shall be revised to conform to the date of Landlord's completion of the building shell. Any such delay shall not relieve Tenant of its obligations under this Lease, and neither Landlord nor Landlord's agents shall be liable to Tenant for any loss or damage resulting from the delay in delivery of possession.

iii. Except for any delay in Landlord's completion of the building shell as set forth in part (ii), above, rent for the entire Premises shall begin on the Commencement Date regardless whether the Premises have been completed.

c. *Termination by Tenant for Failure to Complete Building Shell*. In the event Landlord is unable to complete the building shell within (90) days after the original Commencement Date set forth in the first sentence of this Section 2 (excluding any delays resulting from force majeure or caused by Tenant, including delays resulting from Tenant's requests for changes in the building shell - "Excused Delays"), then Tenant may terminate this Lease by giving written notice to Landlord within one hundred (100) days of the original Commencement Date (excluding Excused Delays). Tenant may not terminate the Lease pursuant to paragraph 2(c) above if it has taken possession of any part of the Premises.

d. *Adjustment of Expiration Date*. If the Expiration Date does not occur on the last day of a calendar month, then Landlord, at its option, may extend the Term by the number of days necessary to cause the Expiration Date to occur on the last day of the last calendar month of the Term. Tenant shall pay Base Rent and Additional Rent for such additional days at the same rate payable for the portion of the last calendar month immediately preceding such extension.

e. *Commencement Agreement*. The Commencement Date, Term, and Expiration Date may be set forth in an amendment to the Lease (the "Commencement Agreement and Lease Amendment Number One") similar to Exhibit C, attached hereto, to be prepared by Landlord and executed by the parties.

3. **USE**.

a. *Permitted Use*. The Premises may be used only for general office and laboratory space purposes in connection with Tenant's present business, which is biotechnology and pharmaceutical products ("Permitted Use"). No animals will be allowed in the Premises for research or any other purposes. Occupancy shall be limited to no more than 4 persons per one thousand (1,000) rentable square feet.

b. *Prohibited Uses*. Tenant shall not use the Premises:

i. In violation of any restrictive covenants which apply to the Premises, copies of which previously have been provided to Tenant by Landlord and are attached hereto as Exhibit D;

ii. In any manner that constitutes a nuisance or a trespass under applicable law;

iii. In any manner which makes insurance unavailable to Landlord on the Building; or;

iv. For any purpose except the Permitted Use, unless consented to by Landlord in writing. Such consent shall not unreasonably be withheld, conditioned or delayed.

c. *Prohibited Equipment in Premises*. Tenant shall not install any equipment in the Premises that places demands on the electrical, heating or air conditioning systems that are beyond the manufacturer's recommended capacities or intended use, without Landlord's prior written consent which shall not unreasonably be withheld, conditioned or delayed. No such consent will be given if Landlord determines, in its opinion, that such equipment may not be safely used in the Premises or that electrical service is not adequate to support the equipment. If heat generating machines or equipment used in the Premises by Tenant create temperatures that cause demands on the heating or air conditioning systems that are beyond the manufacturer's recommended capacities or intended use, Landlord shall have the right to install supplemental air conditioning units in the Premises with the cost of engineering, installation, operation and maintenance of the units to be paid by Tenant as Additional Rent upon demand by Landlord.

4. **RENT**.

a. *Payment Obligations*. Tenant shall pay Base Rent and Additional Rent (collectively, "Rent") on or before the first day of each calendar month during the Term, as follows:

i. Rent payments shall be sent to the following address:

HIGHWOODS REALTY LIMITED PARTNERSHIP
P.O. Box 65183
Charlotte, North Carolina 28265-0183
Tax ID #: 56-1869557

ii. Rent shall be paid without previous demand or notice and without set off or deduction. Tenant's obligation to pay Rent under this Lease is completely separate and independent from any of Landlord's obligations under this Lease.

iii. If the Term commences on a day other than the first day of a calendar month, then Rent for such month shall be (i) prorated for the period between the Commencement Date and the last day of the month in which the Commencement Date falls, and (ii) due and payable on the Commencement Date. Additionally, in the event that Tenant takes possession of only a part of the incomplete Premises prior to Commencement Date, Rent shall be prorated in the manner set forth in paragraph 1(d) above.

iv. Rent payments shall be due on the first (1st) day of each month. For each monthly Rent payment Landlord receives after the fifth (5th) day of the month, Landlord shall be entitled to all default remedies provided under the terms of this Lease, and a late charge in the amount of five percent (5%) of all Rent due for such month. If Landlord presents Tenant's check to any bank and Tenant has insufficient funds to pay for such check, then Landlord shall be entitled to all default remedies provided under the terms of this Lease and the maximum lawful bad check fee or five percent (5%) of the amount of such check, whichever amount is less.

v. If Tenant fails to pay rent when due, or submits a check returned by the bank for insufficient funds (a "Late Payment"), then twice during any calendar year such Late Payment shall not be considered an event of Default if, within five (5) business days after written notice from Landlord (the "Grace Period"), Tenant submits the rent due, including the late charge of five percent (5%) (and any bad check fee, if applicable) for such month. Landlord shall forgive Tenant only two (2) Late Payments per calendar year, any additional Late Payments shall constitute an event of Default.

b. *Base Rent*. The minimum base rent for the Term shall be the sum $4,726,192.92 (“Base Rent”), which shall be paid according to the following Rent Schedule:

MONTHS	MONTHLY RENT	CUMULATIVE RENT
01-12	$52,361.67	$628,340.04
13-24	$53,598.77	$643,185.24
25-36	$54,872.98	$658,475.76
37-48	$56,185.42	$674,225.04
49-60	$57,537.23	$690,446.76
61-72	$58,929.60	$707,155.20
73-84	$60,363.74	$724,364.88
BASE RENT:		**$4,726,192.92**

c. *Additional Rent*. In addition to Base Rent, Tenant shall pay as rent all sums and charges due and payable by Tenant under this Lease (“Additional Rent”), including, but not limited to, the following:

i. Tenant’s Proportionate Share of the increase in Landlord’s Operating Expenses as set forth in Lease Addendum Number Two; and

ii. Any sales or use tax imposed on rents collected by Landlord or any tax on rents in lieu of ad valorem taxes on the Building, even though laws imposing such taxes attempt to require Landlord to pay the same; provided, however, if any such sales or use tax are imposed on Landlord and Landlord is prohibited by applicable law from collecting the amount of such tax from Tenant as Additional Rent, then Landlord, upon sixty (60) days prior written notice to Tenant, may terminate this Lease, unless, legally, Tenant can and does reimburse Landlord for such tax; provided further, however, that in the event of such termination, Tenant and Landlord agree to negotiate a new lease without interruption in Tenant’s possession of the Premises with the same terms as contained in this Lease but with an increased rental rate that reflects the actual increased cost to Landlord of any such change in the tax laws.

iii. In the event that Tenant makes use of the Premises in a manner which increases Landlord’s insurance premiums on the Building, Landlord shall provide fifteen (15) days advance written notice to the Tenant of the increase in the insurance premiums, and shall be entitled to charge the increase in premiums to the Tenant as additional rent. Upon receipt of notice that one of its uses of the Premises is causing an increase in Landlord’s insurance premiums, Tenant shall have the option either of paying the amount of the increase as additional rent, or discontinuing the use. If Tenant elects to discontinue the use, it shall notify Landlord within ten (10) days of its receipt of notice of the increase in premiums, and shall pay any increased premiums charged to Landlord as a result of Tenant’s use prior to such use being discontinued.

5. **SECURITY DEPOSIT**.

a. *Amount of Deposit*. Tenant shall deposit with Landlord the sum of $418,893.36, which sum Landlord shall retain as security for the performance by Tenant of each of its obligations hereunder (the “Security Deposit”). The Security Deposit shall not bear interest.

Alternatively, Tenant may provide Landlord with the Security Deposit in the form of a Letter of Credit. The Letter of Credit shall be renewed each year during the Lease Term and shall extend until thirty (30) days after the Lease Term Expiration Date. The Letter of Credit shall provide that the issuing Bank will renew the Letter of Credit unless the bank gives Landlord at least sixty (60) days prior written notice of its intent to not renew the Letter of Credit. In the event of such notice, Landlord shall be entitled to draw upon the Letter of Credit unless Tenant immediately substitutes another letter of credit, cash or cash equivalent as provided herein. The Letter of Credit shall be issued by a federally insured North Carolina Bank in form and substance reasonably satisfactory to Landlord. Provided there is no lapse of coverage, Tenant may substitute cash, cash equivalent reasonably satisfactory to Landlord, or a Letter of Credit issued by a different federally insured North Carolina Bank for the original Letter of Credit. The Letter of Credit shall be governed by the International Standby Practices set by the international

Chamber of Commerce, and shall be transferable by Landlord (with multiple transfers permitted). If, at any time, Tenant fails to perform its obligations, then Landlord may, at its option, draw upon the Letter of Credit. Landlord shall be entitled to draw upon the Letter of Credit upon Landlord's written statement to the Issuer that Tenant is in default under the terms of the Lease.

If Landlord has drawn upon the Letter of Credit, it may apply the Security Deposit as set forth in subparagraph b, below.

Provided Tenant is a "Tenant in Good Standing" the amount of the Security Deposit shall be adjusted as follows:

(i) Beginning 30 months after the Commencement Date, the Security Deposit shall be decreased by an amount equal to one month's rent at the initial monthly minimum base rent rate, and shall thereafter be decreased by the same amount at twelve month intervals until the amount of the Security Deposit is equal to three month's rent at the initial monthly minimum base rent rate.

(ii) In the event Tenant exercises its option to extend the Lease, the amount of the Security Deposit shall be reduced to one month's rent at the renewal monthly minimum base rent rate.

(iii) If, during the initial Term of the Lease, Tenant's Net Worth, determined in accordance with Generally Accepted Accounting Principles, consistently applied ("GAAP"), equals or exceeds $25,000,000.00, then the amount of the Security Deposit shall be reduced to two month's rent at the initial monthly minimum base rent rate. However, if the Tenant's Net Worth (determined in accordance with GAAP) falls below $25,000,000.00, then Tenant shall restore the Security Deposit to the amount that would otherwise be required under the terms of this Section 5 within 30 days after demand by Highwoods.

If Tenant fails to maintain its status as a Tenant in Good Standing, then Tenant shall immediately restore the Security Deposit to the original amount of the Deposit. Any failure of Tenant to maintain the amount of the Security Deposit required hereunder shall be a material default under the terms of this Lease.

The term "Tenant in Good Standing" shall mean that (i) Tenant has maintained Working Capital (defined as Current Assets less Current Liabilities, determined in accordance with GAAP) of not less than $3,000,000.00, and (ii) is not otherwise in default under this Lease. Tenant shall provide to Landlord quarterly financial statements prepared in accordance with GAAP for the purpose of verifying the financial criteria set forth above.

b. *Application of Deposit*. If, at any time, Tenant is in default beyond any applicable cure period, then Landlord may, at its option, apply the Security Deposit (or any portion) to cure Tenant's default. If Landlord depletes the Security Deposit, in whole or in part, prior to the Expiration Date or any termination of this Lease, then Tenant shall restore immediately the amount so used by Landlord.

c. *Refund of Deposit*. Unless Landlord uses the Security Deposit to cure a default of Tenant, or to restore the Premises to the condition to which Tenant is required to leave the Premises upon the expiration or any termination of the Lease, then Landlord shall, within thirty (30) days after the Expiration Date or any termination of this Lease, refund to Tenant any funds remaining in the Security Deposit. Tenant may not credit the Security Deposit against any month's Rent.

6. **SERVICES BY LANDLORD**.

a. *Base Services*. Provided that Tenant is not then in default, or has failed to cure or begin to cure its default pursuant to the terms of this Lease, Landlord shall cause to be furnished to the Building, or as applicable, the Premises, the following services:

i. Water (if available from city mains) for laboratory, drinking, lavatory and toilet purposes.

ii. Tenant shall be solely responsible for obtaining and paying for all electricity to the Premises.

iii. Operatorless elevator service, which is keypad ready in accordance with the terms of the Workletter set forth in Lease Addendum Number One.

iv. Building standard fluorescent lighting composed of 2' x 4' fixtures; Tenant shall service, replace and maintain at its own expense any incandescent fixtures, table lamps, or lighting other than the building standard fluorescent light, and any dimmers or lighting controls other than controls for the building standard fluorescent lighting.

v. Heating and air conditioning for the reasonably comfortable use and occupancy of the Premises, provided that heating and cooling conforming to any governmental regulation prescribing limitations thereon shall be deemed to comply with this service. Tenant shall have exclusive control of the HVAC systems serving the Premises. If Tenant's use of the Premises places demands on the heating or air conditioning systems that are beyond the manufacturer's recommended capacities or intended use, Landlord shall have the right to install supplemental air conditioning units in the Premises with the cost of engineering, installation, operation and maintenance of the units to be paid by Tenant as Additional Rent upon demand by Landlord. Landlord, at Tenant's request and at no additional cost to Tenant, will maintain the Building Standard HVAC systems at normal office conditions for any subleased space.

vi. Janitorial services five (5) days a week (excluding National and State holidays) after normal working hours. Landlord and Tenant shall jointly establish a specification for the janitorial services needed for the second floor of the Premises, and Landlord will secure competitive bids for such services. After the annual cost for such services has been established, the Minimum Base Rent shall be adjusted to reflect any increase in cost over Landlord's standard janitorial services cost. Janitorial services for the first floor will be at Landlord's standard unless the parties agree otherwise.

vii. Exclusive use for Tenant, its employees, subtenants and visitors of all of the parking spaces of the Building.

b. *Landlord's Maintenance*. Landlord shall pay for and make all repairs and replacements to the Building (including Building fixtures and equipment), common areas and Building Standard Improvements in the Premises, except for repairs and replacements that Tenant must make under Section 7. Landlord's maintenance shall include the roof, foundation, exterior walls, interior structural walls, all structural components, and all Building systems, such as mechanical, electrical, HVAC, and plumbing. Repairs or replacements shall be made within a reasonable time (depending on the nature of the repair or replacement needed) after receiving notice from Tenant or Landlord having actual knowledge of the need for a repair or replacement.

c. *No Abatement*. There shall be no abatement or reduction of Rent by reason of any of the foregoing services not being continuously provided to Tenant. Landlord shall have the right to shut down the building systems (including electricity and HVAC systems) (i) for scheduled maintenance upon giving Tenant five (5) days prior written notice, (ii) for safety inspections upon such notice as is reasonable under the circumstances, and (iii) in cases of emergency without notice.

d. *Tenant's Obligation to Report Defects*. Tenant shall report to Landlord immediately any defective condition in or about the Premises known to Tenant and if such defect is not so reported and such failure to promptly report results in other damage, Tenant shall be liable for same.

e. *Limitation on Landlord's Liability*. Landlord shall not be liable to Tenant for any damage caused to Tenant and its property due to the Building or any part or appurtenance thereof being improperly constructed or being or becoming out of repair, or arising from the leaking of gas, water, sewer or steam pipes, or from problems with electrical service, other than those damages arising from Landlord's willful misconduct.

7. **TENANT'S ACCEPTANCE AND MAINTENANCE OF PREMISES**.

a. *Acceptance of Premises*. Subject to the terms of the attached Workletter, Tenant's occupancy of the Premises is Tenant's representation to Landlord that (i) Tenant has examined and inspected the Premises, (ii) finds the Premises to be as represented by Landlord and satisfactory for Tenant's intended use, and (iii) constitutes Tenant's acceptance of the Premises "as is" subject to Tenant's right to hold Landlord responsible for latent defects (including, without limitation, latent structural defects), and punchlist items. Landlord makes no representation or warranty as to the condition of the Premises except as may be specifically set forth in the Workletter.

b. *Move-In Obligations*. During Tenant's move-in, a representative of Tenant must be on-site with Tenant's moving company to insure proper treatment of the Building and the Premises. Tenant must properly dispose of all packing material and refuse in accordance with the Rules and Regulations. Any damage or destruction to the Building or the Premises due to moving will be the sole responsibility of Tenant.

c. *Tenant's Maintenance*. Tenant shall: (i) keep the Premises and fixtures in good order; (ii) make repairs and replacements to the Premises or Building needed because of Tenant's misuse or negligence; (iii) repair and replace Non-Building Standard Improvements, including any special equipment or decorative treatments, installed by or at Tenant's request that serve the Premises (unless the Lease is ended because of casualty loss or condemnation); and (iv) not commit waste.

d. *Alterations to Premises*. Tenant shall make no structural or interior alterations to the Premises without Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. If Tenant requires such alterations, Tenant shall provide Landlord's Property Manager with a complete set of construction drawings, and the agent shall then determine the actual cost of the work to be done (to include a construction supervision fee of five percent (5%) of the cost of the work to be paid to Landlord). Tenant may then either agree to pay Landlord to have the work done or withdraw its request for alterations. Tenant may also use its own contractor for alterations approved by Landlord provided that: (i) the contractor holds a valid North Carolina license for the work to be performed, (ii) meets with Landlord's reasonable approval, which approval shall not unreasonably be withheld, delayed or conditioned, and (iii) all work performed is subject to Landlord's inspection and reasonable approval, which approval shall not unreasonably be withheld, delayed or conditioned. In the event Tenant uses its own contractor for alterations, Tenant shall pay Landlord a fee of 5% to cover Landlord's cost for such things as reviewing the plans, approving the contractor, and inspecting the work.

e. *Restoration of Premises*. At the expiration or earlier termination of this Lease, Tenant shall (i) deliver each and every part of the Premises in good repair and condition, ordinary wear and tear and damage by insured casualty excepted, and (ii) restore the Premises at Tenant's sole expense to the same condition as existed at the Commencement Date, ordinary wear and tear and damage by insured casualty excepted. If Tenant has required or installed (i) supplemental HVAC, (ii) fume hoods, or (iii) a generator as part of the initial Tenant Improvements, such improvements (including all associated wiring and equipment) shall be removed as part of Tenant's restoration obligation. Landlord, however, may elect to require Tenant to leave any such initial improvements in the Premises. If Tenant has made any alterations to the Premises after the initial Tenant Improvements, and such alterations were approved by the Landlord, Tenant shall remove such alterations unless Landlord specified in writing that such alterations would not have to be removed at the time their installation originally was approved, Upon Tenant's written request, Landlord will advise Tenant in writing prior to any permitted alterations to the Premises whether Tenant will be required to remove the alterations. If Tenant removes any alterations, then Tenant must repair any damage caused by such removal and restore the Premises.

f. *Move Out Procedures*. At least thirty days prior to the expiration of the Lease, or at the time of any earlier termination of the Lease, Tenant shall schedule with Landlord a preliminary inspection of the Premises at which time (i) Tenant will advise Landlord of any items which it intends to remove from the Premises (as permitted under the terms of the Lease), and (ii) Landlord will advise Tenant of items which must be removed and restoration work which must be done (as required under the terms of the Lease). Landlord shall provide Tenant with a written acknowledgment of the results of the preliminary inspection. All Tenant restoration work shall be completed within thirty (30) days after the Expiration Date or earlier termination of the Lease. After Tenant has vacated the Premises, Landlord and Tenant shall conduct an inspection of the Premises to determine whether the restoration work has been completed and whether any additional work is required as a result of damages caused by Tenant's move-out. Landlord shall notify Tenant in writing of any uncompleted or additional restoration work required to be done. When all restoration work has been completed by Tenant, Landlord shall provide Tenant with written acknowledgment of the completion of those obligations, and will release any remaining Security Deposit, if applicable.

g. *Landlord's Performance of Tenant's Obligations*. If Tenant does not perform its maintenance or restoration obligations in a timely manner, commencing the same within five (5) days after receipt of notice from Landlord specifying the work needed, and thereafter diligently and continuously pursuing the work until completion, then Landlord shall have the right, but not the obligation, to perform such work. Any amounts expended by Landlord on such maintenance or restoration shall be Additional Rent to be paid by Tenant to Landlord within thirty (30) days after demand, with interest at the maximum rate allowed by law (or the rate of fifteen percent (15%) per annum, whichever is less) accruing from the date of expenditure through the date paid.

h. *Construction Liens*. Tenant shall have no power to do any act or make any contract that may create or be the foundation of any lien, mortgage or other encumbrance upon the reversionary or other estate of Landlord, or any interest of Landlord in the Premises. NO CONSTRUCTION LIENS OR OTHER LIENS FOR ANY LABOR, SERVICES OR MATERIALS FURNISHED TO THE PREMISES SHALL ATTACH TO OR AFFECT THE INTEREST OF LANDLORD IN AND TO THE PREMISES OR THE BUILDING. Tenant shall keep the Premises and the Building free from any liens arising out of any work performed, materials furnished, or obligations incurred by or on behalf of Tenant. Should any lien or claim of lien be filed against the Premises or the Building by reason of any act or omission of Tenant or any of Tenant's agents, employees, contractors or representatives, then Tenant shall cause the same to be canceled and discharged of record by bond or otherwise within ten (10) days after the filing thereof. Should Tenant fail to discharge the lien within ten (10) days, then Landlord may discharge the lien. The amount paid by Landlord to discharge the lien (whether directly or by bond), plus all administrative and legal costs incurred by Landlord, shall be Additional Rent payable on demand. The remedies provided herein shall be in addition to all other remedies available to Landlord under this Lease or otherwise.

8. **PROPERTY OF TENANT**.

a. *Property Taxes*. Tenant shall pay when due all taxes levied or assessed upon Tenant's equipment, fixtures, furniture, leasehold improvements and personal property located in the Premises.

b. *Removal*. Provided Tenant is not in default, Tenant may remove all fixtures and equipment that it has placed in the Premises. In the event Tenant's removal of any fixture or equipment it has placed in the Premises causes damage to the Premises, Tenant must repair all damages caused by such removal. If Tenant does not remove its property from the Premises upon the expiration or earlier termination (for whatever cause) of this Lease, such property shall be deemed abandoned by Tenant, and Landlord may dispose of the same in whatever manner Landlord may elect without any liability to Tenant.

9. **SIGNS**. Tenant may not erect, install or display any sign or advertising material upon the exterior of the Building or Premises (including any exterior doors, walls or windows) without the prior written consent of Landlord, which consent may be withheld in Landlord's sole discretion, except as set forth in the Workletter (Addendum A). Tenant shall have the right to such interior signage as may be set forth in the Workletter.

10. **ACCESS TO PREMISES**.

a. *Tenant's Access*. Tenant, its agents, employees, invitees, and guests, shall have access to the Premises and reasonable ingress and egress to common and public areas of the Building twenty-four hours a day, seven days a week; provided, however, Landlord by reasonable regulation may control such access for the comfort, convenience, safety and protection of all tenants in the Building, or as needed for making repairs and alterations. Tenant shall be responsible for providing access to the Premises to its agents, employees, invitees and guests after business hours and on weekends and holidays. Landlord shall not be responsible for any lack of access caused by force majeure or governmental regulations.

b. *Landlord's Access*. Landlord may, at all reasonable times and upon reasonable notice, either itself or through its authorized agents, have access to the Premises (i) to make repairs, alterations or changes as Landlord deems necessary, (ii) to inspect the Premises, mechanical systems and electrical devices, and (iii) to show the Premises to prospective mortgagees and purchasers on the following terms: Tenant shall have the right to deny Landlord and its authorized agents access to the Premises unless Landlord or its authorized agents sign a standard confidentiality agreement prior to their entry into the Premises, in which they agree not to disclose any information about any of Tenant's business operations which they may observe while in the Premises, without the express prior written consent of the Tenant. A copy of the Tenant's standard confidentiality agreement is attached hereto as **Exhibit E**. Tenant shall have the responsibility for maintaining the confidentiality agreement at the Premises and for obtaining the signatures of all required persons.

c. *Emergency Access*. Landlord shall have the right to enter the Premises at any time without notice in the event of an emergency.

11. **TENANT'S COMPLIANCE**.

a. *Laws*. Tenant shall comply with all applicable laws, ordinances and regulations affecting the Premises, whether now existing or hereafter enacted.

b. *Rules and Regulations*. Tenant shall comply with the Rules and Regulations attached as **Exhibit B**. The Rules and Regulations may be modified from time to time by Landlord, effective as of the date delivered to Tenant or posted on the Premises, provided such rules are uniformly applicable to all tenants in the Building. Any conflict between this Lease and the Rules and Regulations shall be governed by the terms of this Lease.

12. **ADA COMPLIANCE**.

a. *Tenant's Compliance*. Tenant, at Tenant's sole expense, shall comply with all laws, rules, orders, ordinances, directions, regulations and requirements of federal, state, county and municipal authorities now in force, which shall impose any duty upon Landlord or Tenant with respect to the use or occupation of the Premises or alteration of the Premises to accommodate persons with special needs, including using all reasonable efforts to comply with The Americans With Disabilities Act (the "ADA°) as amended from time to time.

b. *Landlord's Compliance*. **At Commencement Date, the Landlord shall deliver the shell building, and outside common areas in Compliance with the then existing requirements of the ADA**. Landlord, at Landlord's sole expense, shall use all reasonable efforts to meet the requirements of the ADA as it applies to the **entrances and outside** common areas (including the restrooms) of the Building; but Landlord shall have no responsibility for ADA compliance with respect to the Premises **after Commencement Date**. Landlord shall not be required to make changes to the **entrances or outside** common areas or restrooms of the Building to comply with ADA standards adopted after construction of the Building unless specifically required to do so by law.

c. *ADA Notices*. If Tenant receives any notices alleging a violation of ADA relating to any portion of the Building or Premises (including any governmental or regulatory actions or investigations regarding non-compliance with ADA), then Tenant shall notify Landlord in writing within ten (10) days of such notice and provide Landlord with copies of any such notice.

13. **INSURANCE REQUIREMENTS**.

a. *Tenant's Liability Insurance*. Throughout the Term, Tenant, at its sole cost and expense, shall keep or cause to be kept for the mutual benefit of Landlord, Landlord's Property Manager, and Tenant, Commercial General Liability Insurance (1986 ISO Form or its equivalent) with a combined single limit, each Occurrence and General Aggregate-per location of at least TWO MILLION DOLLARS ($2,000,000), which policy shall insure against liability of Tenant, arising out of and in connection with Tenant's use of the Premises, and which shall insure the indemnity provisions contained in this Lease. Not more frequently than once every three (3) years, Landlord may require the limits to be increased to the amount Landlord requires at that time for new Class A office leases in the RTP market.

b. *Tenant's Property Insurance*. Tenant shall also carry the equivalent of ISO Special Form Property Insurance on Tenant's Property for full replacement value with coinsurance waived. For purposes of this provision, "Tenant's Property" shall mean Tenant's personal property and fixtures located in the Premises, and any Non-Building Standard improvements to the Premises. Tenant shall neither have, nor make, any claim against Landlord for any loss or damage to the Tenant's property.

c. *Certificates of Insurance*. Prior to taking possession of the Premises, and annually thereafter, Tenant shall deliver to Landlord certificates or other evidence of insurance satisfactory to Landlord. All such policies shall be non-assessable and shall contain language to the extent obtainable that: (i) any loss shall be payable notwithstanding any act or negligence of Landlord or Tenant that might otherwise result in forfeiture of the insurance, (ii) that the policies are primary and non-contributing with any insurance that Landlord may carry, and (iii) that the policies cannot be canceled, non-renewed, or coverage reduced except after thirty (30) days' prior written notice to Landlord. If Tenant fails to provide Landlord with such certificates or other evidence of insurance coverage, Landlord may obtain such coverage and Tenant shall reimburse the cost thereof on demand.

d. *Insurance Policy Requirements*. Tenant's insurance policies required by this Lease shall: (i) be issued by insurance companies licensed to do business in the state in which the Premises are located with a general policyholder's ratings of at least A- and a financial rating of at least VI in the most current Best's Insurance Reports available on the Commencement Date, or if the Best's ratings are changed or discontinued, the parties shall agree to a comparable method of rating insurance companies; (ii) name the non-procuring party as an additional insured as its interest may appear [other landlords or tenants may be added as additional insureds in a blanket policy]; (iii) provide that the insurance not be canceled, non-renewed or coverage materially reduced unless thirty (30) days advance notice is given to the non-procuring party; (iv) be primary policies; (v) provide that any loss shall be payable notwithstanding any gross negligence of Landlord or Tenant which might result in a forfeiture thereunder of such insurance or the amount of proceeds payable; (vi) have no deductible exceeding TEN THOUSAND DOLLARS ($10,000), unless approved in writing by Landlord; and (vii) be maintained during the entire Term and any extension terms.

e. *Landlord's Property Insurance*. Landlord shall keep the Building, including the improvements (but excluding Tenant's Property), insured against damage and destruction by perils insured by the equivalent of ISO Special Form Property Insurance in the amount of the full replacement value of the Building.

f. *Mutual Waiver of Subrogation*. Anything in this Lease to the contrary notwithstanding, Landlord hereby releases and waives unto Tenant (including all partners, stockholders, officers, directors, employees and agents thereof), its successors and assigns, and Tenant hereby releases and waives unto Landlord (including all partners, stockholders, officers, directors, employees and agents thereof), its successors and assigns, all rights to claim damages for any injury, loss, cost or damage to persons or to the Premises or any other casualty, as long as the amount of such injury, loss, cost or damage has been paid either to Landlord, Tenant, or any other person, firm or corporation, under the terms of any Property, General Liability, or other policy of insurance, to the extent such releases or waivers are permitted under applicable law. As respects all policies of insurance carried or maintained pursuant to this Lease and to the extent permitted under such policies, Tenant and Landlord each waive the insurance carriers' rights of subrogation.

14. **INDEMNITY**. Subject to the insurance requirements, releases and mutual waivers of subrogation set forth in this Lease, Tenant and Landlord agree as follows:

a. *Tenant Indemnity*. Tenant shall indemnify and hold Landlord harmless from and against any and all claims, damages, losses, liabilities, lawsuits, costs and expenses (including attorneys' fees at all tribunal levels) arising out of or related to (i) any activity, work, or other thing done, permitted or suffered by Tenant in or about the Premises or the Building, (ii) any breach or default by Tenant in the performance of any of its obligations under this Lease, or (iii) any act or neglect of Tenant, or any officer, agent, employee, contractor, servant, invitee or guest of Tenant.

b. *Landlord Indemnity*. Landlord shall indemnify and hold Tenant harmless from and against any and all claims, damages, losses, liabilities, lawsuits, costs and expenses (including attorneys' fees at all tribunal levels) arising out of or related to (i) any activity, work, or other thing done, permitted or suffered by Landlord in or about the Premises or the Building, or (ii) any act or neglect of Landlord, or any officer, employee, contractor, or servant of Landlord. This indemnity shall not apply to any claim for property loss or damage by Tenant or its officers, agents, employees, contractors, or servants. Tenant's failure to obtain any insurance coverage required under the terms of this Lease shall void Landlord's indemnity obligation to the extent such insurance would have provided coverage for the claim.

c. *Defense Obligation*. If any such action is brought against the indemnified party, then the indemnifying party, upon notice from the other party, shall defend the same through counsel acceptable to indemnified party. The provisions of this Section shall survive the termination of this Lease.

The provisions of this Section 14 shall survive the termination of this Lease.

15. **QUIET ENJOYMENT**. Tenant shall have quiet enjoyment and possession of the Premises provided Tenant promptly and fully complies with all of its obligations under this Lease. No action of Landlord in repairing or restoring the Building or Premises, shall be deemed a constructive eviction in breach of this covenant, nor shall such action give to Tenant any right to modify this Lease either as to term, rent payables or other obligations to be performed.

16. **SUBORDINATION; ATTORNMENT; NON-DISTURBANCE; AND ESTOPPEL CERTIFICATE**.

a. *Subordination and Attornment*. Tenant agrees to execute within ten (10) days after request to do so from Landlord or its mortgagee an agreement:

i. Making this Lease superior or subordinate to the interests of the mortgagee;

ii. Agreeing to attorn to the mortgagee;

iii. Giving the mortgagee notice of, and a reasonable opportunity (which shall in no event be less than thirty (30) days after written notice thereof is delivered to mortgagee) to cure any Landlord default and agreeing to accept such cure if effected by the mortgagee;

iv. Permitting the mortgagee (or other purchaser at any foreclosure sale), and its successors and assigns, on acquiring Landlord's interest in the Premises and the Lease, to become substitute Landlord hereunder, with liability only for such Landlord obligations as accrue after Landlord's interest is so acquired;

v. Agreeing to attorn to any successor Landlord; and

vi. Containing such other agreements and covenants on Tenant's part as Landlord's mortgagee may reasonably request.

b. *Non-Disturbance*. Tenant's obligation to subordinate its interests or attorn to any mortgagee is conditioned upon the mortgagee's agreement not to disturb Tenant's possession and quiet enjoyment of the Premises under this Lease so long as Tenant is in compliance with the terms of the Lease.

c. *Estoppel Certificates*. Tenant agrees to execute within ten (10) days after request, and as often as requested, estoppel certificates confirming any factual matter requested which is true and is within Tenant's knowledge regarding this Lease, and the Premises, including but not limited to: (i) the date of occupancy, (ii) Expiration Date, (iii) the amount of Rent due and date to which Rent is paid, (iii) whether Tenant has any defense or offsets to the enforcement of this Lease or the Rent payable, (iv) any default or breach by Landlord, and (v) whether this Lease, together with any modifications or amendments, is in full force and effect. Tenant shall attach to such estoppel certificate copies of any modifications or amendments to the Lease.

17. **ASSIGNMENT - SUBLEASE**.

a. *Landlord Consent*. Tenant may not assign or encumber this Lease or its interest in the Premises arising under this Lease, and may not sublet all or any part of the Premises without first obtaining the written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. Factors which Landlord may consider in consenting to an assignment or sublease include (without limitation), (i) the proposed use of the Premises, (ii) the credit worthiness of the assignee or sublessee, and (iii) any renovations to the Premises or special services required by the assignee or sublessee. One consent shall not be the basis for any further consent. Landlord acknowledges that Tenant will initially be leasing more space than it intends to occupy, and plans to sublease the portion of the Premises located on the first floor of the Building. Landlord will assist Tenant in subleasing the first floor space to suitable subtenants consistent with the criteria and fees set forth in this Section 17. Landlord acknowledges that Tenant intends to sublease all or a substantial portion of the first floor of the building, and that the credit worthiness of such sublessees shall be the responsibility of Tenant and not Landlord.

b. *Definition of Assignment*. For the purpose of this Section 17, the word "assignment" shall be defined and deemed to include the following: (i) if Tenant is a partnership, the withdrawal or change, whether voluntary, involuntary or by operation of law, of partners owning thirty percent (30%) or more of the partnership, or the dissolution of the partnership; (ii) if Tenant consists of more than one person, an assignment, whether voluntary, involuntary, or by operation of law, by one person to one of the other persons that is a Tenant; (iii) if Tenant is a corporation, any dissolution or reorganization of Tenant, or the sale or other transfer of a controlling percentage (hereafter defined) of capital stock of Tenant other than to an affiliate or subsidiary or the sale of fifty-one percent (51%) in value of the assets of Tenant; (iv) if Tenant is a limited liability company, the change of members whose interest in the company is fifty percent (50%) or more. The phrase "controlling percentage" means the ownership of, and the right to vote, stock possessing at least fifty-one percent (51%) of the total combined voting power of all classes of Tenant's capital stock issued, outstanding and entitled to vote for the election of directors, or such lesser percentage as is required to provide actual control over the affairs of the corporation; except that, if the Tenant conducts an Initial Public Offering or otherwise is a publicly traded company, public trades or sales of the Tenant's stock on a national stock exchange shall not be considered an assignment hereunder even if the aggregate of the trades of sales exceeds fifty percent (50%) of the capital stock of the company.

c. *Permitted Assignments/Subleases*. Notwithstanding the foregoing, Tenant may assign this Lease or sublease part or all of the Premises without Landlord's consent to: (i) any corporation or partnership that controls, is controlled by, or is under common control with, Tenant at the Commencement Date; or (ii) any corporation resulting from the merger or consolidation with Tenant or to any entity that acquires all of Tenant's assets as a going concern of the business that is being conducted on the Premises, as long as the assignee or sublessee is a bona fide entity and assumes the obligations of Tenant, is as creditworthy as the Tenant, and continues the same Permitted Use as provided under Section 3. However, Landlord must be given prior written notice of any such assignment or subletting, and failure to do so shall be a default hereunder.

d. *Prohibited Assignments/Subleases*. In no event shall this Lease be assignable by operation of any law, and Tenant's rights hereunder may not become, and shall not be listed by

Tenant as an asset under any bankruptcy, insolvency or reorganization proceedings. Acceptance of Rent by Landlord after any non-permitted assignment or sublease shall not constitute approval thereof by Landlord.

e. *Limitation on Rights of Assignee/Sublessee*. Any assignment or sublease for which Landlord's consent is required shall not include the right to exercise any options to renew the Lease Term, expand the Premises, or similar options, unless specifically provided for in the consent.

f. *Tenant Not Released*. No assignment or sublease shall release Tenant of any of its obligations under this Lease, unless so stated in writing signed by the Landlord.

g. *Landlord's Right to Collect Sublease Rents upon Tenant Default*. If the Premises (or any portion) are sublet and Tenant defaults under its obligations to Landlord, then Landlord is authorized, at its option, to collect all sublease rents directly from the Sublessee. Tenant hereby assigns the right to collect the sublease rents to Landlord in the event of Tenant default. The collection of sublease rents by Landlord shall not relieve Tenant of its obligations under this Lease, nor shall it create a contractual relationship between Sublessee and Landlord or give Sublessee any greater estate or right to the Premises than contained in its Sublease.

h. *Excess Rents*. If Tenant assigns this Lease or subleases all or part of the Premises at a rental rate that exceeds the rentals paid to Landlord, then any such excess shall be divided evenly between Landlord and Tenant; provided, however, Tenant first shall have the right to deduct out of excess assignment or sublease rentals its reasonable and customary transaction costs, including, but not limited to, the cost of: (i) broker's commissions paid by Tenant with regard to the transfer, (ii) reasonable legal fees incurred by Tenant in connection with the assignment or sublease, and (iii) the cost of improvements made to the Premises by Tenant at Tenant's expense as of the date of such transfer, or any tenant improvements made by Tenant at Tenant's expense for the purpose of the transfer.

i. *Landlord's Fees*. Tenant shall pay Landlord an administration fee of $1,000.00 per assignment or sublease transaction for which consent is required. If Landlord assists Tenant in finding an assignee or subtenant, Landlord shall be paid a reasonable fee for such assistance, subject to the terms of any separate agreement reached between the parties in the course of any such transaction. Notwithstanding this provision, Landlord agrees to waive this administration fee in connection with the initial sublease of all or any portion of the first floor of the Premises, which sublease is contemplated by the Parties to commence on or about the Commencement Date.

18. **DAMAGES TO PREMISES**.

a. *Landlord's Restoration Obligations*. If the Building or Premises are damaged by fire or other casualty ("Casualty"), then, as soon as is practicable, Landlord shall repair and restore the Premises to substantially the same condition of the Premises immediately prior to such Casualty, subject to the following terms and conditions:

i. The casualty must be insured under Landlord's insurance policies, and Landlord's obligation is limited to the extent of the insurance proceeds received by Landlord. Landlord's duty to repair and restore the Premises shall not begin until receipt of the insurance proceeds.

ii. Landlord's lender(s) must permit the insurance proceeds to be used for such repair and restoration.

iii. Landlord shall have no obligation to repair and restore Tenant's trade fixtures, decorations, signs, contents, or any Non-Building Standard improvements to the Premises.

b. *Termination of Lease by Landlord*. Landlord shall have the option of terminating the Lease if: (i) the Premises is rendered wholly untenantable; (ii) the Premises is damaged in whole or in part as a result of a risk which is not covered by Landlord's insurance policies; (iii) Landlord's lender does not permit a sufficient amount of the insurance proceeds to be used for

restoration purposes; (iv) the Premises is damaged in whole or in part during the last two years of the Term; or (v) the Building containing the Premises is damaged (whether or not the Premises is damaged) to an extent of fifty percent (50%) or more of the fair market value thereof. If Landlord elects to terminate this Lease, then it shall give written notice of the cancellation to Tenant within sixty (60) days after the date of the Casualty. Tenant shall vacate and surrender the Premises to Landlord within fifteen (15) days after receipt of the notice of termination.

c. *Termination of Lease by Tenant*. Within forty-five (45) days after the occurrence of any Casualty to the Building or Premises. Landlord shall notify Tenant in writing whether, in Landlord's estimation, repairs to the Building or Premise can be completed within one hundred and eighty (180) days of the Casualty. Such notice shall contain information substantiating Landlord's estimation, and also shall state the date, based upon the substantiating information, Landlord believes that repairs to the Building or Premise will be completed. In the event that Landlord's estimated time for completion of repairs to the Building or Premises is greater that one hundred and eighty (180) days from the date of the Casualty, Tenant shall have the option of terminating this Lease within ten (10) days of its receipt of Landlord's notice. In addition, Tenant shall have the option of terminating the Lease if: (i) Landlord has failed to substantially restore the damaged Building or Premises within one hundred eighty (180) days of the Casualty ("Restoration Period"); (ii) the Restoration Period has not been delayed by force majeure; and (iii) Tenant gives Landlord written notice of the termination within fifteen (15) days after the end of the Restoration Period (as extended by any force majeure delays). If Landlord is delayed by force majeure, then Landlord must provide Tenant with written notice of the delays within fifteen (15) days of the force majeure event stating the reason for the delays and a good faith estimate of the length of the delays.

d. *Tenant's Restoration Obligations*. Subject to the terms of paragraphs 18 (b) and 18 (c) above, unless terminated, the Lease shall remain in full force and effect, and Tenant shall promptly repair, restore, or replace Tenant's trade fixtures, decorations, signs, contents, and any Non-Building Standard improvements to the Premises. All repair, restoration or replacement shall be at least to the same standard as existed prior to the Casualty. However, nothing in this provision shall be interpreted to prevent Tenant from upgrading or replacing any trade fixtures, decorations, signs, non-Building Standard improvements or other contents of the Premises with contents that are of a newer design or higher quality than the contents which were lost or damaged. In addition, nothing in this provision shall it be interpreted to require Tenant to replace any trade fixtures, decorations, signs, non-Building Standard improvements or other contents of the Premises which were obsolete or otherwise no longer necessary to the conduct of the Tenant's business operations. The proceeds of all insurance carried by Tenant on its property shall be held in trust by Tenant for the purposes of fulfilling the repair, restoration, or replacement requirements of this provision.

e. *Rent Abatement*. If Premises is rendered wholly untenantable by the Casualty, then the Rent payable by Tenant shall be fully abated. If the Premises is only partially damaged, then Tenant shall continue the operation of Tenant's business in any part not damaged to the extent reasonably practicable, and Rent and other charges shall be abated proportionately to the portion of the Premises rendered untenantable. The abatement shall be from the date of the Casualty until the Premises have been substantially repaired and restored, or until Tenant's business operations are restored in the entire Premises, whichever shall first occur. However, if the Casualty is caused by the negligence or other wrongful conduct of Tenant or of Tenant's subtenants, licensees, contractors, or invitees, or their respective agents or employees, there shall be no abatement of Rent.

f. *Waiver of Claims*. The abatement of the Rent set forth above is Tenant's exclusive remedy against Landlord in the event of a Casualty. Tenant hereby waives all claims against Landlord for any compensation or damage for loss of use of the whole or any part of the Premises and/or for any inconvenience or annoyance occasioned by any Casualty and any resulting damage, destruction, repair, or restoration.

g. *Substitute Premises in Event of Casualty*. In the event of a Casualty that makes the Premises untenantable, Landlord shall use commercially reasonable efforts to secure substitute premises for the Tenant during the period of renovations, with square foot rental rates no greater than the rates under this Lease and the other basic rental terms of this Lease applying to the substitute space.

19. **EMINENT DOMAIN**.

a. *Effect on Lease*. If all of the Premises are taken under the power of eminent domain (or by conveyance in lieu thereof), then this Lease shall terminate as of the date possession is taken by the condemnor, and Rent shall be adjusted between Landlord and Tenant as of such date. If only a portion of the Premises is taken and Tenant can continue use of the remainder, then this Lease will not terminate, but Rent shall abate in a just and proportionate amount to the loss of use occasioned by the taking.

b. *Right to Condemnation Award*. Landlord shall be entitled to receive and retain the entire condemnation award for the taking of the Building and Premises. Tenant shall have no right or claim against Landlord for any part of any award received by Landlord for the taking. Tenant shall have no right or claim for any alleged value of the unexpired portion of this Lease, or its leasehold estate, or for costs of removal, relocation, business interruption expense or any other damages arising out of such taking. Tenant, however, shall not be prevented from making a claim against the condemning party (but not against Landlord) for any moving expenses, loss of profits, or taking of Tenant's personal property (other than its leasehold estate) to which Tenant may be entitled; provided that any such award shall not reduce the amount of the award otherwise payable to Landlord for the taking of the Building and Premises.

20. **ENVIRONMENTAL COMPLIANCE**.

a. *Environmental Laws*. The term "Environmental Laws" shall mean all now existing or hereafter enacted or issued statutes, laws, rules, ordinances, orders, permits and regulations of all state, federal, local and other governmental and regulatory authorities, agencies and bodies applicable to the Premises, pertaining to environmental matters or regulating, prohibiting or otherwise having to do with asbestos and all other toxic, radioactive, or hazardous wastes or materials including, but not limited to, the Federal Clean Air Act, the Federal Water Pollution Control Act, and the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as from time to time amended.

b. *Tenant's Responsibility*. Tenant covenants and agrees that it will keep and maintain the Premises at all times in compliance with Environmental Laws. Tenant shall not (either with or without negligence) cause or permit the escape, disposal or release of any biologically active or other hazardous substances, or materials on the Property. Landlord acknowledges that Tenant shall be operating a biotechnology and pharmaceutical laboratory in the Premises, and proper disposal of any substances in the Premises in accordance with any applicable Environmental Laws, any license or permit issued to Tenant, and the highest standards of protocol observed in the industry shall not be a breach of this provision provided that (i) such disposal does not contaminate the Building, Premises or real estate upon which they are located, and (ii) Tenant does not acquire, dispose of or store any substances in a manner that makes the Building, Premises or real estate upon which they are located any type of regulated treatment, storage, disposal, or recycling facility (excluding acquisition, use, short-term storage, and disposal of hazardous substances in the ordinary course of Tenant's business as a laboratory for biotechnology and pharmaceutical products in compliance with all Environmental Laws), or that makes the Building, Premises or real estate upon which they are located an illegal hazardous waste dump. Tenant shall not allow the storage or use of such substances or materials in any manner not sanctioned by law or in compliance with the highest standards prevailing in the industry for the storage and use of such substances or materials, nor allow to be brought onto the Property any such materials or substances except to use in the ordinary course of Tenant's business, and then only after written notice is given to Landlord of the identity of such substances or materials. The written notice requirement shall be satisfied by providing Landlord periodically with the Material Safety Data Sheets and typical quantities of all hazardous substances used in Tenant's laboratory operations. No such notice shall be required, however, for commercially reasonable amounts of ordinary office supplies and janitorial supplies. Tenant shall execute affidavits, representations and the like, from time to time, at Landlord's request, concerning Tenant's best knowledge and belief regarding the presence of hazardous substances or materials on the Premises.

c. *Tenant's Liability*. Tenant shall hold Landlord free, harmless, and indemnified from any penalty, fine, claim, demand, liability, cost, or charge whatsoever which Landlord shall

incur, or which Landlord would otherwise incur, by reason of Tenant's failure to comply with this Section 20 including, but not limited to: (i) the cost of full remediation of any contamination to bring the Premises into the same condition as prior to occupancy and into full compliance with all Environmental Laws; (ii) the reasonable cost of all appropriate tests and examinations of the Premises to confirm that the Premises have been remediated and brought into compliance with all Environmental Laws; and (iii) the reasonable fees and expenses of Landlord's attorneys, engineers, and consultants incurred by Landlord in enforcing and confirming compliance with this Section 20.

d. *Limitation on Tenant's Liability*. Tenant's obligations under this Section 20 shall not apply to any condition or matter constituting a violation of any Environmental Laws: (i) which existed prior to the commencement of Tenant's use or occupancy of the Premises; (ii) which was not caused, in whole or in part, by Tenant or Tenant's agents, employees, officers, partners, contractors or invitees; or (iii) to the extent such violation is caused by, or results from the acts or neglects of Landlord or Landlord's agents, employees, officers, partners, contractors, guests, or invitees.

e. *Inspections by Landlord*. Landlord and its engineers, technicians, and consultants (collectively the "Auditors") may, from time to time as Landlord deems appropriate, conduct periodic tests and examinations ("Audits") of the Premises to confirm and monitor Tenant's compliance with this Section 20. Such Audits shall be conducted in such a manner as to minimize the interference with Tenant's Permitted Use; however in all cases, the Audits shall be of such nature and scope as shall be reasonably required by then existing technology to confirm Tenant's compliance with this Section 20. Tenant shall fully cooperate with Landlord and its Auditors in the conduct of such Audits. The cost of such Audits shall be paid by Landlord unless an Audit shall disclose a material failure of Tenant to comply with this Section 20, in which case, the cost of such Audit, and the cost of all subsequent Audits made during the Term and within thirty (30) days thereafter (not to exceed two (2) such Audits per calendar year), shall be paid for on demand by Tenant,

f. *Landlord's Liability*. Landlord represents and warrants that, to the best of Landlord's knowledge, there are no hazardous materials on the Premises as of the Commencement Date in violation of any Environmental Laws. Landlord shall indemnify and hold Tenant harmless from any liability resulting from Landlord's violation of this representation and warranty.

g. *Property*. For the purposes of this Section 20, the Premises shall include the real estate covered by this Lease; all improvements thereon; all personal property used in connection with the Premises (including that owned by Tenant); and the soil, ground water, and surface water of the Premises, if the Premises includes any ground area.

h. *Tenant's Liability After Termination of Lease*. The covenants contained in this Section 20 shall survive the expiration or termination of this Lease, and shall continue for so long as Landlord and its successors and assigns may be subject to any expense, liability, charge, penalty, or obligation against which Tenant has agreed to indemnify Landlord under this Section 20.

21. **DEFAULT**.

a. *Tenant's Default*. Tenant shall be in default under this Lease if Tenant:

i. Fails to pay when due any Base Rent, Additional rent, or any other sum of money which Tenant is obligated to pay, as provided in this Lease;

ii. Breaches any other agreement, covenant or obligation in this Lease and such breach is not remedied within fifteen (15) days after Landlord gives Tenant written notice specifying the breach, or if such breach cannot, with due diligence, be cured within fifteen (15) days, Tenant does not commence curing within fifteen (15) days and with reasonable diligence completely cure the breach within a reasonable period of time after the notice;

iii. Files any petition or action for relief under any creditor's law (including bankruptcy, reorganization, or similar action), either in state or federal court, or has such a petition or action filed against it which is not stayed or vacated within sixty (60) days after filing; or

iv. Makes any transfer in fraud of creditors as defined in Section 548 of the United States Bankruptcy Code (11 U.S.C. 548, as amended or replaced), has a receiver appointed for its assets (and the appointment is not stayed or vacated within thirty (30) days), or makes an assignment for benefit of creditors.

b. *Landlord's Remedies*. In the event of a Tenant default, Landlord at its option may do one or more of the following: (i) terminate this Lease; (ii) repossess the Premises, with or without terminating, and relet the Premises at such amount as Landlord deems reasonable; (iii) declare the entire Base Rent and Additional Rent immediately due and payable and bring action for recovery of all amounts so due; (iv) seize and hold any personal property of Tenant located in the Premises and assert against the same a lien for monies due Landlord; (v) without obtaining any court authorization, lock the Premises and deny Tenant access thereto (vi) pursue any other remedy available in law or equity.

c. *Landlord's Expenses; Attorneys Fees*. All reasonable expenses of Landlord in repairing, restoring, or altering the Premises for reletting as general office space, together with leasing fees and all other expenses in seeking and obtaining a new Tenant, shall be charged to and be a liability of Tenant. Landlord's reasonable attorneys' fees in pursuing any of the foregoing remedies, or in collecting any Rent or Additional Rent due by Tenant hereunder, shall be paid by Tenant.

d. *Remedies Cumulative*. All rights and remedies of Landlord are cumulative, and the exercise of any one shall not be an election excluding Landlord at any other time from exercise of a different or inconsistent remedy. No exercise by Landlord of any right or remedy granted herein shall constitute or effect a termination of this Lease unless Landlord shall so elect by written notice delivered to Tenant. The failure of Landlord to exercise its rights in connection with this Lease or any breach or violation of any term, or any subsequent breach of the same or any other term, covenant or condition herein contained shall not be a waiver of such term, covenant or condition or any subsequent breach of the same or any other covenant or condition herein contained.

e. *No Accord and Satisfaction*. No acceptance by Landlord of a lesser sum than the Rent, Additional Rent and other sums then due shall be deemed to be other than on account of the earliest installment of such payments due, nor shall any endorsement or statement on any check or any letter accompanying any check or payment be deemed as accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such installment or pursue any other remedy provided in this Lease.

f. *No Reinstatement*. No payment of money by Tenant to Landlord after the expiration or termination of this Lease shall reinstate or extend the Term, or make ineffective any notice of termination given to Tenant prior to the payment of such money. After the service of notice or the commencement of a suit, or after final judgment granting Landlord possession of the Premises, Landlord may receive and collect any sums due under this Lease, and the payment thereof shall not make ineffective any notice or in any manner affect any pending suit or any judgment previously obtained.

g. *Summary Ejectment*. Tenant agrees that in addition to all other rights and remedies Landlord may obtain an order for summary ejectment from any court of competent jurisdiction without prejudice to Landlord's rights to otherwise collect rents from Tenant.

h. *Landlord Default*. Landlord shall be in default under this Lease if Landlord breaches any agreement, covenant or obligation in this Lease and such breach is not remedied within fifteen (15) days after Tenant gives Landlord written notice specifying the breach, or if such breach cannot, with due diligence, be cured within fifteen (15) days, Landlord does not commence curing within fifteen (15) days and with reasonable diligence completely cure the breach within a reasonable period of time after the notice.

i. *Tenant's Remedies*. In the event of a Landlord default, Tenant may, in addition to any remedies available to it at law, cure the default on behalf of Landlord, and the reasonable costs of such cure shall be paid to Tenant by Landlord upon written demand. In no event shall Landlord be liable to Tenant for any special, consequential, incidental, or punitive damages arising from any breach of this Lease.

22. **MULTIPLE DEFAULTS**.

a. *Loss of Option Rights*. Tenant acknowledges that any rights or options of first refusal, or to extend the Term, to expand the size of the Premises, to purchase the Premises or the Building, or other similar rights or options which have been granted to Tenant under this Lease are conditioned upon the prompt and diligent performance of the terms of this Lease by Tenant. Accordingly, should Tenant default under this Lease on two (2) or more occasions during any twelve (12) month period, in addition to all other remedies available to Landlord, all such rights and options shall automatically, and without further action on the part of any party, expire and be of no further force and effect.

b. *Increased Security Deposit*. Should Tenant default in the payment of Base Rent, Additional Rent, or any other sums payable by Tenant under this Lease on two (2) or more occasions during any twelve (12) month period, regardless of whether Landlord permits such default to be cured, then, in addition to all other remedies otherwise available to Landlord, Tenant shall, within ten (10) days after demand by Landlord, post a Security Deposit in, or increase the existing Security Deposit to, a sum equal to three (3) months' installments of Base Rent. The disposition of the Security Deposit shall be governed by the terms of this Lease.

23. **BANKRUPTCY**.

a. *Trustee's Rights*. Landlord and Tenant understand that, notwithstanding contrary terms in this Lease, a trustee or debtor in possession under the United States Bankruptcy Code, as amended, (the "Code") may have certain rights to assume or assign this Lease. This Lease shall not be construed to give the trustee or debtor in possession any rights greater than the minimum rights granted under the Code.

b. *Adequate Assurance*. Landlord and Tenant acknowledge that, pursuant to the Code, Landlord is entitled to adequate assurances of future performance of the provisions of this Lease. The parties agree that the term "adequate assurance" shall include at least the following:

i. In order to assure Landlord that any proposed assignee will have the resources with which to pay all Rent payable pursuant to the provisions of this Lease, any proposed assignee must have, as demonstrated to Landlord's satisfaction, a net worth (as defined in accordance with generally accepted accounting principles consistently applied) of not less than the net worth of Tenant on the Effective Date (as hereinafter defined), increased by seven percent (7%), compounded annually, for each year from the Effective Date through the date of the proposed assignment. It is understood and agreed that the financial condition and resources of Tenant were a material inducement to Landlord in entering into this Lease.

ii. Any proposed assignee must have been engaged in the conduct of business for the five (5) years prior to any such proposed assignment, which business does not violate the Use provisions under Section 3 above, and such proposed assignee shall continue to engage in the Permitted Use under Section 3a. It is understood that Landlord's asset will be substantially impaired if the trustee in bankruptcy or any assignee of this Lease makes any use of the Premises other than the Permitted Use.

c. *Assumption of Lease Obligations*. Any proposed assignee of this Lease must assume and agree to be personally bound by the provisions of this Lease.

24. **NOTICES**.

a. *Addresses*. All notices, demands and requests by Landlord or Tenant shall be addressed as follows (or to such other address as a party may specify by duly given notice):

LANDLORD: **HIGHWOODS REALTY LIMITED PARTNERSHIP**
c/o Highwoods Properties, Inc.
3100 Smoketree Court, Suite 600
Raleigh, North Carolina 27604
Attn: Manager, Lease Administration
Facsimile #: 919/876-2448

TENANT: **BIOSTRATUM, INC.**
4825 Creekstone Drive, Suite 200
Durham, North Carolina 27703
Attention: Office Manager
Facsimile #: 919/544-5425

b. *Form; Delivery; Receipt*. All notices, demands and requests which may be given or which are required to be given by either party to the other must be in writing. Notices, demands or requests shall be deemed to have been properly given for all purposes if (i) delivered against a written receipt of delivery, (ii) mailed by express, registered or certified mail of the United States Postal Service, return receipt requested, postage prepaid, or (iii) delivered to a nationally recognized overnight courier service for next business day delivery to the receiving party's address as set forth above or (iv) delivered via telecopier or facsimile transmission to the facsimile number listed above, with an original counterpart of such communication sent concurrently as specified in subsection (ii) or (iii) above and with written confirmation of receipt of transmission provided. Each such notice, demand or request shall be deemed to have been received upon the earlier of the actual receipt or refusal by the addressee or three (3) business days after deposit thereof at any main or branch United States post office if sent in accordance with subsection (ii) above, and the next business day after deposit thereof with the courier if sent pursuant to subsection (iii) above.

c. *Address Changes*. The parties shall notify the other of any change in address, which notification must be at least fifteen (15) days in advance of it being effective.

d. *Notice by Legal Counsel*. Notices may be given on behalf of any party by such party's legal counsel.

25. **HOLDING OVER**.

a. *Permissible Hold Over*. Tenant shall have the right to hold over after the Expiration Date only in accordance with the terms of this paragraph 25(a). If Tenant delivers written notice to Landlord of its intent to hold over in some or all of the Premises, not less than 270 days prior to the Expiration Date, Tenant may hold over after the Expiration Date for not less than 30 days and not more than 180 days. Notice of intent to hold over (the "Hold Over Notice") pursuant to this provision shall not be sufficient unless it specifies the amount of time for Tenant is going to hold over (the "Hold Over Period"). Tenant shall designate specifically in the Hold Over Notice whether it intends to hold over in (a) the entire Premises; (b) the entire area of the second floor of the Premises only; and/or (c) the portion of the first floor of the Premises not being sublet by the Tenant as a separate demised premises on the date the Hold Over Notice is delivered to Landlord. In the event that Tenant exercises its right to hold over pursuant to this provision, Tenant shall pay (i) 125% of the Base Rent provided for in this Lease, and (ii) any and all Operating Expenses and other forms of Additional Rent payable under this Lease ("Hold Over Rent"). If Tenant decides to hold over in less than the entire Premises pursuant to this paragraph, Hold Over Rent shall be pro rated to reflect the actual square footage of the portion of the Premises Tenant shall occupy during the Hold Over Period. Tenant shall be responsible for paying Hold Over Rent for the entire hold over period specified in the Hold Over Notice, regardless of whether Tenant actually occupies the Premises for the entire Hold Over Period. All of the remaining terms of this Lease shall remain in effect during the Hold Over Period.

b. *Impermissible Hold Over*. If Tenant fails to provide Landlord with proper Hold Over Notice pursuant to section 25 (a) above, and nevertheless holds over after the Expiration Date or other termination of this Lease, or holds over beyond any permissible Hold Over Period, such holding over shall not be a renewal of this Lease but shall create a tenancy-at-sufferance. Tenant shall continue to be bound by all of the terms and conditions of this Lease, except that during such tenancy-at-sufferance Tenant shall pay to Landlord (i) Base Rent at the rate equal to two hundred percent (200%) of that provided for as of the expiration or termination date, and (ii) any and all Operating Expenses and other forms of Additional Rent payable under this Lease. The increased Rent during such holding over is intended to compensate Landlord partially for losses, damages and expenses, including frustrating and delaying Landlord's ability to secure a replacement tenant. If Landlord loses a prospective tenant because Tenant fails to vacate the Premises on the Expiration Date or any termination of the Lease after notice to do so, then Tenant will be liable for such damages as Landlord can prove because of Tenant's wrongful failure to vacate.

26. **BROKER'S COMMISSIONS**.

a. *Broker*. Each party represents and warrants to the other that it has not dealt with any real estate broker, finder or other person with respect to this Lease in any manner, except Corporate Realty Advisors, whose address is **5511 Capital Center Drive, Suite 320, Raleigh, North Carolina 27607** ("Broker").

b. *Landlord's Obligation*. Landlord shall pay any commissions or fees that are payable to the Broker with respect to this Lease pursuant to Landlord's separate agreement with the Broker.

c. *Indemnity*. Each party shall indemnify and hold the other party harmless from any and all damages resulting from claims that may be asserted against the other party by any other broker, finder or other person (including, without limitation, any substitute or replacement broker claiming to have been engaged by indemnifying party in the future), claiming to have dealt with the indemnifying party in connection with this Lease or any amendment or extension hereto, or which may result in Tenant leasing other or enlarged space from Landlord. The provisions of this Section shall survive the termination of this Lease.

27. **MISCELLANEOUS**.

a. *Tenant's Right to Protect Proprietary Information*. In the event that Tenant reasonably determines, that any information sought by Landlord pursuant to the terms of this Lease is of a proprietary nature, Landlord, at Tenant's request, shall execute a reasonable confidentiality agreement in which Landlord agrees not to disclose any such information obtained from Tenant to any other person, firm or entity unless compelled to do so by order from a Court of competent jurisdiction or unless required to do so to comply with any federal, state or local law, rule or regulation (including without limitation any Environmental Laws).

b. *No Agency*. Tenant is not, may not become, and shall never represent itself to be an agent of Landlord, and Tenant acknowledges that Landlord's title to the Building is paramount, and that it can do nothing to affect or impair Landlord's title.

c. *Force Majeure*. The term "force majeure" means: fire, flood, extreme weather, labor disputes, strike, lock-out, riot, government interference (including regulation, appropriation or rationing), unusual delay in deliveries or unavailability of materials, unavoidable casualties, Act of God, or other causes beyond the Landlord's reasonable control.

d. *Building Standard Improvements*. The term "Building Standard Improvements" shall mean the standards for normal construction of general office space within the Building as specified by Landlord, including design and construction standards, materials, fixtures and finishes. A list of Building Standard Improvements is attached hereto as **Exhibit G**, and incorporated herein by reference.

e. Limitation on Damages. Notwithstanding any other provisions in this Lease, Landlord shall not be liable to Tenant for any special, consequential, incidental or punitive damages.

f. *Satisfaction of Judgments Against Landlord*. If Landlord, or its employees, officers, directors, stockholders or partners are ordered to pay Tenant a money judgment because of Landlord's default under this Lease, said money judgment may only be enforced against and satisfied out of: (i) Landlord's interest in the Building in which the Premises are located including the rental income and proceeds from sale; and (ii) any insurance or condemnation proceeds received because of damage or condemnation to, or of, said Building that are available for use by Landlord. No other assets of Landlord or said other parties exculpated by the preceding sentence shall be liable for, or subject to, any such money judgment.

g. *Legal Costs*. In the event that litigation should ensue between Landlord and Tenant arising from or relating to the terms of this Lease, the losing party shall be liable to the prevailing party for all of the costs and expenses incurred by the prevailing party in connection with the litigation, including, without limitation the reasonable attorney's fees of the prevailing party (at all tribunal levels).

h. *Sale of Premises or Building*. Landlord may sell the Premises or the Building without affecting the obligations of Tenant hereunder, provided that Landlord first obtains a written acknowledgment from of any buyer stating that it is fully aware of the existence and terms of this Lease, and that it agrees to be bound as fully as is the Landlord by the terms of this Lease, as of the date title to the Premises or Building is transferred to it. Once a true and accurate copy of this written acknowledgment and agreement of the buyer has been delivered to the Tenant, Landlord shall be relieved of all responsibility for the Premises and shall be released from any liability thereafter accruing under this Lease.

i. *Transfer of Security Deposit*. If any Security Deposit or prepaid Rent has been paid by Tenant, Landlord may transfer the Security Deposit or prepaid Rent to Landlord's successor, provided that Landlord first obtains a written acknowledgment from its successor stating that it is fully aware of the existence and terms of this Lease relating to the disposition of the Security Deposit, and that it agrees to be bound as fully as is the Landlord by the terms of this Lease relating to the disposition of the Security Deposit, as of the date the Security Deposit is transferred to it. Once a true and accurate copy of this written acknowledgment and agreement of Landlord's successor has been delivered to the Tenant, Landlord shall be released from any liability for return of the Security Deposit or prepaid Rent.

j. *Tender of Premises*. The delivery of a key or other such tender of possession of the Premises to Landlord or to an employee of Landlord shall not operate as a termination of this Lease or a surrender of the Premises unless requested in writing by Landlord.

k. *Recordation*. This Lease may not be recorded without Landlord's prior written consent. However, Tenant and Landlord have executed a memorandum of this Lease for recording purposes, which shall be delivered to Tenant upon the final execution of this Lease. The memorandum of this Lease is attached hereto as **Exhibit F**.

l. *Partial Invalidity*. The invalidity of any portion of this Lease shall not invalidate the remaining portions of the Lease.

m. *Binding Effect*. This Lease shall be binding upon the respective parties hereto, and upon their heirs, executors, successors and assigns.

n. *Entire Agreement*. This Lease supersedes and cancels all prior negotiations between the parties, and no changes shall be effective unless in writing signed by both parties. Tenant acknowledges and agrees that it has not relied upon any statements, representations, agreements or warranties except those expressed in this Lease, and that this Lease contains the entire agreement of the parties hereto with respect to the subject matter hereof.

o. *Good Standing*. If requested by Landlord, Tenant shall furnish appropriate legal documentation evidencing the valid existence in good standing of Tenant, and the authority of any person signing this Lease to act for the Tenant. If Tenant signs as a corporation, each of the persons executing this Lease on behalf of Tenant does hereby covenant and warrant that Tenant is a duly authorized and existing corporation, that Tenant has and is qualified to do business in the State of North Carolina, that the corporation has a full right and authority to enter into this Lease and that each of the persons signing on behalf of the corporation is authorized to do so.

p. *Terminology*. The singular shall include the plural, and the masculine, feminine or neuter includes the other.

q. *Headings*. Headings of sections are for convenience only and shall not be considered in construing the meaning of the contents of such section.

r. *Choice of Law*. This Lease shall be interpreted and enforced in accordance with the laws of the State of North Carolina.

s. *Effective Date*. The submission of this Lease to Tenant for review does not constitute a reservation of or option for the Premises, and this Lease shall become effective as a contract only upon the execution and delivery by both Landlord and Tenant. The date of execution shall be entered on the top of the first page of this Lease by Landlord, and shall be the date on which the last party signed the Lease, or as otherwise may be specifically agreed by both parties. Such date, once inserted, shall be established as the final day of ratification by all parties to this Lease, and shall be the date for use throughout this Lease as the "Effective Date".

28. **SPECIAL CONDITIONS OR ADDENDA**. The following special conditions, if any, shall apply, and where in conflict with earlier provisions in this Lease shall control. If any addenda are noted below, such addenda are incorporated herein and made a part of this Lease.

28.1 **Attachments**.

28.1a. **Lease Addendum Number One - "Work Letter"**
28.1b. **Lease Addendum Number Two - "Additional Rent - Operating Expense Pass Throughs"**
28.1c. **Lease Addendum Number Three - "Option to Extend Lease Term"**
28.1d. **Exhibit A - Premises**
28.1e. **Exhibit B - Rules and Regulations**
28.1f. **Exhibit C - Commencement Agreement**
28.1g. **Exhibit D - Restrictive Covenants**
28.1h. **Exhibit E - Confidentiality Agreement**
28.1i. **Exhibit F -Memorandum to Lease**
28.1j. **Exhibit G - Building and Standard Improvements**
28.1k. **Exhibit H - Signage**

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY
SIGNATURE BLOCKS ON NEXT PAGE]

IN WITNESS WHEREOF, Landlord and Tenant have executed this lease in four originals, all as of the day and year first above written.

TENANT:

BIOSTRATUM, INC.
a Delaware corporation

By: /s/ Claus Kuhl

Name: Claus Kuhl

Title: President and CEO

Date: 18 August 2000

Attest: /s/ Albert J. Montano
Albert J. Montano
Secretary

Affix Corporate Seal:

LANDLORD:

HIGHWOODS REALTY LIMITED PARTNERSHIP
a North Carolina limited partnership
By: Highwoods Properties, Inc., its general partner
a Maryland corporation

By: /s/ Marcus H. Jackson
Marcus H. Jackson,
Senior Vice President
Date: 9/8/00

Attest: /s/ Kathleen E. Kowalski
Kathleen E. Kowalski, Assistant Secretary

ACKNOWLEDGMENT

STATE OF ILLINOIS
COUNTY OF LAKE

I, the undersigned Notary Public, certify that Albert J. Montano personally came before me this day and acknowledged that he is _____ Secretary of BioStratum Inc., a _____ corporation, and that by authority duly given and as the act of the corporation, the foregoing instrument was signed in its name by _____, as its _____ President, attested by Albert J. Montano as its _____ Secretary, and sealed with its common corporate seal.

WITNESS my hand and notarial seal, this 21 day of August, 2000.

Notary Public /s/ Pearl A. McDermott

My Commission Expires: 6-17-02

LEASE ADDENDUM NUMBER ONE

WORKLETTER. This Lease Addendum Number One (the "First Addendum") sets forth the rights and obligations of Landlord and Tenant with respect to space planning, engineering, final workshop drawings, and the construction and installation of any improvements to the Premises to be completed before the Commencement Date ("Tenant Improvements"). This First Addendum contemplates that the performance of this work will proceed in four stages in accordance with the following schedule: (i) preparation of a space plan; (ii) final design and engineering and preparation of final plans and working drawings; (iii) preparation by the Contractor (as hereinafter defined) of an estimate of the cost of the Tenant Improvements; (iv) submission and approval of plans by appropriate governmental authorities and construction and installation of the Tenant Improvements by the Commencement Date.

In consideration of the mutual covenants hereinafter contained, Landlord and Tenant do mutually agree to the following:

1. **Allowance**. Landlord agrees, at its sole cost and expense, to provide an allowance of up to $22.00 per usable square foot totaling $689,612.00, to design, engineer, install, supply and otherwise to construct the Tenant Improvements in the Premises that will become a part of the Building (the "Allowance"); otherwise, Tenant is fully responsible for the payment of all costs in connection with the Tenant Improvements.

In addition, at Tenant's option, Landlord shall increase the Allowance by up to $10.00 per useable square foot ("Additional Allowance") for use in the second floor space only, upon the following terms: (i) the Minimum Base Rent shall be increased in the amount required to amortize the Additional Allowance over five years at a 12% discount rate; (ii) Tenant shall give Landlord a letter of credit for the full amount of the Additional Rent with the letter of credit having the same terms and conditions set forth in Section 5 of this Lease for a security deposit letter of credit. In addition Landlord agrees to amortize tenant's requested modifications to the lobby which will result in additional costs to shell building over 7 year term at 12% discount rate within increased letter of credit as discussed above.

In the event Tenant's upfit requirements are different from the Building Standard Improvements (**Exhibit G**) to be installed by Landlord as part of the shell, then Landlord will give Tenant an additional credit towards the Tenant Improvements for the cost of Building Standard Improvements not required, provided such Building Standard Improvements have not been installed, purchased or placed on site. Tenant shall be responsible for the cost of any non-Building Standard Improvements to the shell.

2. **Space Planning, Design and Working Drawings**. Tenant, at Tenant's expense, which expense shall be reimbursed from the Allowance, shall provide and designate architects and engineers licensed in North Carolina and reasonably acceptable to Landlord, which architects and engineers will complete construction and mechanical drawings and specifications as required to construct the Tenant Improvements. Landlord shall make available to Tenant and its contractors and service providers (subject to the intellectual and professional property rights of the designer) all Building records, plans, and specifications (including electronic format) reasonably necessary for Tenant's space planning and design. The architects and engineers shall comply with the following:

a. Attend a reasonable number of meetings with Tenant and Landlord's agent to define Tenant requirements. Tenant shall provide one complete space plan prepared by Tenant's architect in order to obtain Landlord's approval of such space plan.

b. Complete construction drawings for Tenant's partition layout, reflected ceiling grid, telephone and electrical outlets, keying, and finish schedule (subject to the limitation expressed in Section 2 below).

c. Complete building standard mechanical plans where necessary (for installation of air conditioning system and ductwork, and heating and electrical facilities) for the work to be done in the Premises.

d. All plans and working drawings for the construction and completion of the Premises (the "Plans") shall be subject to Landlord's prior written approval. Any changes or modifications Tenant desires to make to the Plans shall also be subject to Landlord's prior approval. Landlord agrees that it will not unreasonably withhold its approval of the Plans, or of any changes or modifications thereof; provided, however, Landlord shall have sole and absolute discretion to approve or disapprove any improvements that will be visible to the exterior of the Premises, or which may affect the structural integrity of the Building. Any approval of the Plans by Landlord shall not constitute approval of any Delays caused by Tenant and shall not be deemed a waiver of any rights or remedies that may arise as a result of such Delays.

e. If Tenant makes any revisions to the space plan after it has been approved by both Landlord and Tenant, Tenant shall pay all additional costs and expenses incurred as a result of such revisions.

3. **Signage and Keying**. Door and/or directory signage in accordance with building standard shall be provided and installed by Tenant and reimbursed from the Allowance. In addition, Tenant shall have the exclusive right to parapet signage, the design of which previously has been approved by Landlord in accordance with the agreement of Landlord and Tenant, and the City of Durham's signage standards. A representation of Tenant's approved signage is attached to the Lease as **Exhibit H**. Any modifications to the approved signage shall be subject to Landlord's approval. Tenant shall bear the sole cost of all signage, which cost may be reimbursed from the Allowance.

Landlord, at its cost, shall provide Tenant with appropriate keys, key cards, and or other items needed for access to the Building and Premises at a ratio of 4 complete sets per 1,000 rentable square feet leased.

4. **Work and Materials at Tenant's Expense**.

a. Tenant shall select Contractors licensed in North Carolina, to provide the work and materials to construct the Tenant Improvements; provided that Landlord shall first approve such Contractors, such approval not to be unreasonably withheld. The parties acknowledge that Clancy & Theys Construction Company will be constructing the Building shell. Landlord will use commercially reasonable efforts to secure from Clancy & Theys similar terms and conditions for the Tenant Improvements as were applicable to the shell building. Tenant shall have the option of accepting the Clancy & Theys proposal, or selecting a different contractor in accordance with this Section 4. The contract for the Tenant Improvements shall be in the name of Highwoods Properties, Inc. or its designated affiliate. Landlord shall coordinate and facilitate all communications between Tenant and the Contractor.

b. If Tenant selects a contractor other than Clancy & Theys to construct the Tenant Improvements, then Tenant shall pay Landlord a fee of 2% of the cost of construction of the tenant improvements, to reimburse Landlord for its costs and expenses in monitoring construction of the Tenant Improvements to assure they are being constructed in accordance with the approved Plans.

c. Prior to the Contractor commencing Work, it shall submit to Landlord and Tenant in writing the cost of the Work, which shall include (i) the Contractor's cost for completing the Work (including the Contractor's general conditions, overhead and profit) and (ii) Landlord's construction supervision fee. Tenant shall have five (5) business days from the date on which it receives the cost of the Work to review and approve the cost of the Work. Landlord shall not authorize the Contractor to proceed with the work until the cost is mutually agreed upon and approved in writing and delivered to Landlord.

d. Any changes in the approved cost of the Work shall be by written change order signed by the Tenant. Tenant agrees to process change orders in a timely fashion. Tenant acknowledges that the following items may result in change orders:

i. Changes required to the Premises by municipal or other governmental inspectors such as additional exit lights, fire damper or whatever

other changes that such inspectors may require. In such event, Landlord will notify the Tenant of the required changes, but the cost of such changes and any delay associated with such changes shall be the responsibility of the Tenant.

ii. Tenant changes to the plans or requests for additional work. Tenant will be notified of the cost and any delays that would result from the change by a change order signed by Tenant before the changes are implemented. Any delays caused by such changes shall not delay the commencement date of the Lease,

iii. Any errors or omissions in the plans or specifications which require changes. Landlord will notify the Tenant of the required changes, but the cost of such changes and any delay associated with such changes shall be the responsibility of the Tenant, and shall not delay the commencement date of the Lease.

iv. If materials are not readily available, require quick ship charges, or require substitution.

v. The upfit schedule requires Express Review to get permits, which will increase the costs of the permitting process.

e. All work performed in connection with the construction of the Premises shall be performed in a good and workmanlike manner and in accordance with all applicable laws and regulations and with the final approved Plans.

f. The Contractor selected must agree to provide Tenant with a one-year comprehensive warranty on all Building systems from the date of occupancy for defective workmanship and materials. All manufacturers' and builders' warranties with respect to the Work shall be issued to or transferred to Tenant, without recourse to the Landlord, provided that nothing in this paragraph or in any such warranty shall be interpreted to release Landlord from any liability it may have for structural or latent defects in the Building.

g. Prior to taking possession of the Premises, Tenant and Landlord shall inspect the Premises and the parties shall give Contractor written notice of any defects or incomplete work ("Punchlist"). Tenant's possession of the Premises constitutes acknowledgment by Tenant that the Premises are in good condition and that all work and materials provided by Contractor are satisfactory as of such date of occupancy, except as to (i) any defects or incomplete work set forth in the Punchlist, (ii) latent defects, and (iii) any equipment that is used seasonally if Tenant takes possession of the Premises during a season when such equipment is not in use.

h. Upon completion of the Tenant Improvements and within five (5) days after demand by Landlord, Contractor shall deliver to Landlord (i) final releases of lien from all contractors, subcontractors and materialmen performing any work or providing any materials for the Tenant Improvements, and from any lienors giving notice required under law; (ii) a final contractor's affidavit from the general Contractor in accordance with applicable law; and (iii) any supporting documentation evidencing final completion and payment of the Tenant Improvements reasonably requested by Landlord.

5. **Tenant Improvement Expenses in Excess of the Allowance**. Tenant agrees to pay to Landlord, promptly upon being billed therefor, all costs and expenses in excess of the Allowance incurred in connection with the Tenant Improvements. Tenant will be billed for such costs and expenses as follows: one hundred percent (100%) of such costs and expenses shall be due and payable upon final completion of such work. If unpaid within ten (10) days after receipt of invoice, then the outstanding balance shall accrue at the rate of one percent (1 %) per month until paid in full.

6. **Second Floor Bathrooms**. Landlord will provide, at its expense, restrooms finished to the level as originally planned for the Building. If Tenant chooses to upgrade the finishes in the Second Floor Bathrooms, then the excess cost shall be at Tenant's expense, which may be deducted from the Allowance.

7. **Electricity**. The parties acknowledge that the Tenant Improvements will be complex and require special cooperation to determine the electrical load for the Premises.

8. **Commencement Date**. The Commencement Date of the Lease shall not be delayed by reason of the non-completion of the Tenant Improvements.

9. **Materials and Workmanship**. Tenant covenants and agrees that all work performed in connection with the construction of the Premises shall be performed in a good and workmanlike manner and in accordance with all applicable laws and regulations and with the final approved Plans.

10. **Architectural and Engineering Services**. Landlord and Tenant agree that Clark Richards and Biskup Consulting Engineers ("CRB") will provide engineering services, and Flad & Associates ("F&A") will provide architectural services for the second floor of the Premises. Landlord and Tenant agree that CRB and F&A shall perform their work under contract to Tenant, but all plans and specifications shall be subject to Landlord's approval. Tenant shall be reimbursed for the costs of such services from the Tenant Improvement Allowance. Landlord shall make available to Tenant, its contractors and service providers all records, plans and specifications (including in electronic format) on the Building to the extent necessary for Tenant to undertake timely and effective planning and design efforts. Tenant shall consider using Landlord's preferred vendors for architectural and engineering services for the first floor of the Premises, provided such vendors can substantiate the reasonableness of their fees for such services to the satisfaction of Tenant. If Tenant decides to use HagerSmith Design for architectural services on the first floor of the Premises, the individual from HagerSmith to be assigned to this project must either be Scott Idol, Tony Smith or Craig Dean.

11. **Elevators**. Landlord shall provide, at its expense, operatorless elevator service in the Building for the purpose of Serving the Premises in accordance with the terms of the Lease. Additionally, Landlord shall install, at its expense, elevators in the Building that are "keypad ready" so that Tenant may install a keyless lock-off system to prevent unauthorized access to the second floor of the Premises. Tenant shall be responsible for the cost of installing a keyless lock-off system, and any other costs incurred in connection with improvements made to the elevators beyond those required to be made by the Landlord.

12. **Parking**. In addition to Landlord's obligations to provide parking as stated in the Lease, Landlord shall mark a reasonable number of parking spaces near the main entrance of the Building as "Visitor" spaces for the benefit of Tenant and any subtenants of the Building.

LEASE ADDENDUM NUMBER TWO

ADDITIONAL RENT - OPERATING EXPENSE PASS THROUGHS. For the calendar year commencing on January 1, 2001 and for each calendar year thereafter, Tenant shall pay to Landlord, as Additional Rent, the entire amount of any increase in Operating Expenses (as hereinafter defined) incurred by Landlord's operation or maintenance of the Building above the Operating Expenses Landlord incurred during the Base Year (as hereinafter defined).

For the calendar year commencing on January 1, 2002 and for each calendar year thereafter during the Term, Landlord shall estimate the amount the Operating Expenses shall increase for such calendar year above the Operating Expenses incurred during the Base Year. Landlord shall send to Tenant a written statement of the amount of any estimated increase in Operating Expenses and Tenant shall pay to Landlord, monthly or annually, such increase in Operating Expenses. Within ninety (90) days after the end of each calendar year or as soon as possible thereafter, Landlord shall send a copy of the Annual Statement to Tenant. Pursuant to the Annual Statement, Tenant shall pay to Landlord Additional Rent as owed or Landlord shall adjust Tenant's Rent payments if Landlord owes Tenant a credit, such payment or adjustment to be made within thirty (30) days after the Annual Statement is received by Tenant. After the Expiration Date, Landlord shall send Tenant the final Annual Statement for the Term, and Tenant shall pay to Landlord Additional Rent as owed or if Landlord owes Tenant a credit, then Landlord shall pay Tenant a refund. If this Lease expires or terminates on a day other than December 31, then Additional Rent shall be prorated on a 365-day calendar year (or 366 if a leap year).

If Tenant disputes the amount of Operating Expenses as set forth in the Annual Statement from the Landlord, then Tenant may have Landlord's books and records relating to Operating Expenses audited by a qualified professional selected by Tenant or by Tenant itself, provided (i) Tenant gives written notice of the audit within forty-five (45) days of Tenant's receipt of the Annual Statement, and (ii) Tenant is not in default under the Lease. No subtenant shall have any right to conduct an audit and no assigns shall conduct an audit for any period during which such assignee was not in possession of the Premises.

Books and records necessary to accomplish any audit permitted under this Section shall be retained for twelve months after the end of each calendar year, and on receipt of notice of Tenant's dispute of the operating expenses shall be made available to Tenant to conduct the audit, which (at Landlord's option) may be either at the Premises, or at Landlord's office in Raleigh, North Carolina. If Tenant and Landlord dispute the amount of operating expenses after Tenant's Audit, then Landlord's independent certified public accountant shall consult with Tenant's professional to reconcile any discrepancies.

In the event that the Tenant elects to have a professional audit Landlord's Operating Expenses as provided in this Lease, such audit must be conducted by an independent nationally or regionally recognized accounting firm that is not being compensated by Tenant on a contingency fee basis. All information obtained through such audit as well as any compromise, settlement or adjustment reached as a result of such audit shall be held in strict confidence by Tenant and its officers, agents, and employees and as a condition to such audit, the Tenant's auditor shall execute a written agreement agreeing that the auditor is not being compensated on a contingency fee basis and that all information obtained through such audit as well as any compromise, settlement or adjustment reached as a result of such audit, shall be held in strict confidence and shall not be revealed in any manner to any person except upon the prior written consent of the Landlord, which consent may be withheld in Landlord's sole discretion, or if required pursuant to any litigation between Landlord and Tenant materially related to the facts disclosed by such audit, or if required by law.

If Operating Expenses were overstated by six percent (6%) or more, then Landlord shall reimburse Tenant for the overage and Tenant's reasonable Audit costs; otherwise, Tenant shall pay its own costs and shall reimburse Landlord for the reasonable costs, if any, of Landlord's certified public accountant.

ADDENDUM NUMBER THREE

OPTION TO EXTEND LEASE TERM

1. *Option to Extend*. Tenant shall have the right and option to extend the Lease (the "Renewal Option") for one additional period of three years (the "Renewal Lease Term") for (i) the area of the entire second floor of the Premises, and/or (ii) any portion of the first floor of the Premises not being sublet by Tenant at the time Tenant gives notice of renewal pursuant to this Addendum Number Three; provided, however, that such Renewal Option is contingent upon the following: (i) Tenant is not in default at the time Tenant gives Landlord written notice of Tenant's intention to exercise the Renewal Option; (ii) upon the Expiration Date or the expiration of any Renewal Lease Term, Tenant has no outstanding default; (iii) no event has occurred that upon notice or the passage of time would constitute a default; (iv) Tenant is not disqualified by multiple defaults as provided in the Lease; and (v) Tenant is occupying the Premises. Following the expiration of the Renewal Term, Tenant shall have no further right to renew or extend the Lease pursuant to this Addendum Number Three.

2. *Exercise of Option*. Tenant shall exercise each Renewal Option by giving Landlord written notice at least three hundred sixty days prior to the Expiration Date or the last day of any Renewal Lease Term. If Tenant fails to give such notice to Landlord prior to said three hundred sixty (360) day period, then Tenant shall forfeit the Renewal Option. If Tenant exercises the Renewal Option, then during any such Renewal Lease Term, Landlord and Tenant's respective rights, duties and obligations shall be governed by the terms and conditions of the Lease.

3. *Term*. If Tenant exercises the Renewal Option, then during any such Renewal Lease Term, all references to the term "Term", as used in the Lease, shall mean the "Renewal Lease Term".

4. *Termination of Renewal Option on Transfer by Tenant*. In the event Landlord consents to an assignment or sublease by Tenant, then the Renewal Option shall automatically terminate unless otherwise agreed in writing by Landlord.

5. *Base Rent for Renewal Lease Term*. The Base Rent for the Renewal Lease Term shall be the sum **$2,281,896.24**, which shall be paid according to the following Rent Schedule:

MONTHS	MONTHLY RENT	CUMULATIVE RENT
01-12	$61,849.07	$ 742,188.84
13-24	$63,370.79	$ 760,449.48
25-36	$64,938.16	$ 779,257.92
	BASE RENT:	**$ 2,281,896.24**

In the event that Tenant chooses to exercise its Lease Renewal Option for less than the entire Premises pursuant to the provisions of paragraph one of this Addendum Number Three, Rent shall be prorated so that Tenant pays Rent only for the amount of square footage Tenant actually occupies during the Renewal Lease Term.

The term "Base Year" shall mean the twelve month period beginning on the January 1, 2001 and ending on December 31, 2001.

The term "Operating Expenses" shall mean direct costs of operation, repair and maintenance as determined by standard accounting practices, including, but not limited to ad valorem real and personal property taxes, hazard and liability insurance premiums, utilities (excluding utilities paid directly by Tenant), janitorial service, labor, materials, supplies, equipment and tools, permits, licenses, inspection fees, management fees, and common area expenses; provided, however, the term "Operating Expenses" shall not include depreciation on the Building or equipment therein, interest, executive salaries, real estate brokers' commissions, or other expenses that do not relate to the operation of the Building. Tenant shall have exclusive control of the Heating, Ventilation and Air Conditioning ("HVAC") systems serving the Premises. However, due to Tenant's intention to sublease (on an interim basis) all or a portion of the first floor of the Premises, Landlord agrees to maintain Building Standard HVAC services for any subleased space. Tenant shall pay Landlord's actual costs of providing and maintaining

HVAC services to the Premises on both the first and second floors of the Premises as Operating Expenses pursuant to the terms of this Addendum Three. The annual statement of Operating Expenses shall be accounted for and reported in accordance with generally accepted accounting principles (the "Annual Statement").

EXHIBIT A

PREMISES

[Brochure for property including drawing of building, map of its location, floor plans, specifications and amenities]

EXHIBIT B
RULES AND REGULATIONS

In the event that there is any conflict between these Rules and Regulations and the terms of the Lease, the terms of the Lease shall apply.

1. **Access to Building**. On Saturdays, Sundays, legal holidays and weekdays between the hours of 6:00 P.M. and 8:00 A.M., access to the Building and/or to the halls, corridors, elevators or stairways in the Building may be restricted and access shall be gained by use of a key or electronic card to the outside doors of the Buildings. Landlord may from time to time establish security controls for the purpose of regulating access to the Building. Tenant shall be responsible for providing access to the Premises for its agents, employees, invitees and guests at times access is restricted, and shall comply with all such security regulations so established.

2. **Protecting Premises**. The last member of Tenant to leave the Premises shall close and securely lock all doors or other means of entry to the Premises and shut off all utilities in the Premises.

3. **Building Directories**. The directories for the Building in the form selected by Landlord shall be used exclusively for the display of the name and location of tenants. Any additional names and/or name change requested by Tenant to be displayed in the directories must be approved by Landlord and, if approved, will be provided at the sole expense of Tenant.

4. **Large Articles**. Furniture, freight and other large or heavy articles may be brought into the Building only at times and in the manner designated by Landlord and always at Tenant's sole responsibility. All damage done to the Building, its furnishings, fixtures or equipment by moving or maintaining such furniture, freight or articles shall be repaired at Tenant's expense.

5. **Signs**. Tenant shall not paint, display, inscribe, maintain or affix any sign, placard, picture, advertisement, name, notice, lettering or direction on any part of the outside or inside of the Building, or on any part of the inside of the Premises which can be seen from the outside of the Premises, without the written consent of Landlord, and then only such name or names or matter and in such color, size, style, character and material as shall be first approved by Landlord in writing. Landlord, without notice to Tenant, reserves the right to remove, at Tenant's expense, all matter other than that provided for above.

6. **Compliance with Laws**. Tenant shall comply with all applicable laws, ordinances, governmental orders or regulations and applicable orders or directions from any public office or body having jurisdiction, whether now existing or hereinafter enacted with respect to the Premises and the use or occupancy thereof. Tenant shall not make or permit any use of the Premises which directly or indirectly is forbidden by law, ordinance, governmental regulations or order or direction of applicable public authority, which may be dangerous to persons or property or which may constitute a nuisance to other tenants.

7. **Hazardous Materials**. Tenant shall not use or permit to be brought into the Premises or the Building any flammable oils or fluids, or any explosive or other articles deemed hazardous to persons or property, or do or permit to be done any act or thing which will invalidate, or which, if brought in, would be in conflict with any insurance policy covering the Building or its operation, or the Premises, or any part of either, and will not do or permit to be done anything in or upon the Premises, or bring or keep anything therein, which shall not comply with all rules, orders, regulations or requirements of any organization, bureau, department or body having jurisdiction with respect thereto (and Tenant shall at all times comply with all such rules, orders, regulations or requirements), or which shall increase the rate of insurance on the Building, its appurtenances, contents or operation.

8. **Defacing Premises and Overloading**. Tenant shall not place anything or allow anything to be placed in the Premises near the glass of any door, partition, wall or window that may be unsightly from outside the Premises. Tenant shall not place or permit to be placed any article of any kind on any window ledge or on the exterior walls; blinds, shades, awnings or other forms of inside or outside window ventilators or similar devices shall not be placed in or about the outside windows in the Premises except to the extent that the character, shape, color, material and make thereof is approved by Landlord. Tenant shall not do any painting or decorating in the Premises or install any floor coverings in the Premises or make, paint, cut or drill into, or in any way deface any part of the Premises or Building without in each instance obtaining the prior written consent of Landlord. Tenant shall not overload any floor or part thereof in the Premises, or any facility in the Building or any public corridors or elevators therein by bringing in or removing any large or heavy articles and Landlord may direct and control the location of safes, files, and all other heavy articles and, if considered necessary by Landlord may require Tenant at its expense to supply whatever supplementary supports necessary to properly distribute the weight.

9. **Obstruction of Public Areas**. Tenant shall not, whether temporarily, accidentally or otherwise, allow anything to remain in, place or store anything in, or obstruct in any way, any sidewalk, court, hall, passageway, entrance, or shipping area. Tenant shall lend its full cooperation to keep such areas free from all obstruction and in a clean and sightly condition, and move all supplies, furniture and equipment as soon as received directly to the Premises, and shall move all such items and waste (other than waste customarily removed by Building employees) that are at any time being taken from the Premises directly to the areas designated for disposal. All courts, passageways, entrances, exits, elevators, escalators, stairways, corridors, halls and roofs are not for the use of the general public and Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence, in the judgment of Landlord, shall be prejudicial to the safety, character, reputation and interest of the Building and its tenants; provided, however, that nothing herein contained shall be construed to prevent such access to persons with whom Tenant deals within the normal course of Tenant's business so long as such persons are not engaged in illegal activities.

10. **Additional Locks**. Tenant shall not attach, or permit to be attached, additional locks or similar devices to any door or window, change existing locks or the mechanism thereof, or make or permit to be made any keys for any door other than those provided by Landlord. Upon termination of this Lease or of Tenant's possession, Tenant shall immediately surrender all keys to the Premises.

11. **Communications or Utility Connections**. If Tenant desires signal, alarm or other utility or similar service connections installed or changed, then Tenant shall not install or change the same without the approval of Landlord, and then only under direction of Landlord and at Tenant's expense. Tenant shall not install in the Premises any equipment which requires a greater than normal amount of electrical current for the permitted use without the advance written consent of Landlord. Tenant shall ascertain from Landlord the maximum amount of load or demand for or use of electrical current which can safely be permitted in the Premises, taking into account the capacity of the electric wiring in the Building and the Premises and the needs of other tenants in the Building, and shall not in any event connect a greater load than that which is safe.

12. **Office of the Building**. Service requirements of Tenant will be attended to only upon application at the office of Highwoods Properties, Inc. Employees of Landlord shall not perform, and Tenant shall not engage them to do any work outside of their duties unless specifically authorized by Landlord.

13. **Restrooms**. The restrooms, toilets, urinals, vanities and the other apparatus shall not be used for any purpose other than that for which they were constructed, and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the Tenant whom, or whose employees or invitees, shall have caused it.

14. **Intoxication**. Landlord reserves the right to exclude or expel from the Building any person who, in the judgment of Landlord, is intoxicated, or under the influence of liquor or drugs, or who in any way violates any of the Rules and Regulations of the Building.

15. **Nuisances and Certain Other Prohibited Uses**. Tenant shall not (a) install or operate any internal combustion engine, boiler, machinery, refrigerating, heating or air conditioning apparatus in or about the Premises; (b) engage in any mechanical business, or in any service in or about the Premises or Building, except those ordinarily embraced within the Permitted Use as specified in Section 3 of the Lease; (c) use the Premises for housing, lodging, or sleeping purposes; (d) prepare or warm food in the Premises or permit food to be brought into the Premises for consumption therein (heating coffee and individual lunches of employees excepted) except by express permission of Landlord; (e) place any radio or television antennae on the roof or on or in any part of the inside or outside of the Building other than the inside of the Premises, or place a musical or sound producing instrument or device inside or outside the Premises which may be heard outside the Premises; (f) use any power source for the operation of any equipment or device other than dry cell batteries or electricity; (g) operate any electrical device from which may emanate waves that could interfere with or impair radio or television broadcasting or reception from or in the Building or elsewhere; (h) bring or permit to be in the Building any bicycle, other vehicle, dog (except in the company of a blind person), other animal or bird; (i) make or permit any objectionable noise or odor to emanate from the Premises; (j) disturb, harass, solicit or canvass any occupant of the Building; (k) do anything in or about the Premises which could be a nuisance or tend to injure the reputation of the Building; (i) allow any firearms in the Building or the Premises except as approved by Landlord in writing.

16. **Solicitation**. Tenant shall not canvass other tenants in the Building to solicit business or contributions and shall not exhibit, sell or offer to sell, use, rent or exchange any products or services in or from the Premises unless ordinarily embraced within the Tenant's Permitted Use as specified in Section 3 of the Lease.

17. **Energy Conservation**. Tenant shall not waste electricity, water, heat or air conditioning and agrees to cooperate fully with Landlord to insure the most effective operation of the Building's heating and air conditioning, and shall not allow the adjustment (except by Landlord's authorized Building personnel) of any controls.

18. **Building Security**. At all times other than normal business hours the exterior Building doors and suite entry door(s) must be kept locked to assist in security. The janitorial service, upon completion of its duties, will lock all Building doors. Problems in Building and suite security should be directed to Landlord at (919) 872-4924.

19. **Parking**. Parking is in designated parking areas only. There may be no vehicles in "no parking" zones or at curbs. Handicapped spaces are for handicapped persons and the Police Department will ticket unauthorized (unidentified) cars in handicapped spaces. Landlord reserves the right to remove vehicles that do not comply with the Lease or these Rules and Regulations and Tenant shall indemnify and hold harmless Landlord from its reasonable exercise of these rights with respect to the vehicles of Tenant and its employees, agents and invitees.

20. **Janitorial Service**. The janitorial staff will remove all trash from trashcans. Any container or boxes left in hallways or apparently discarded unless clearly and conspicuously labeled DO NOT REMOVE may be removed without liability to Tenant. Any large volume of trash resulting from delivery of furniture, equipment, etc., should be removed by the delivery company, Tenant, or Landlord at Tenant's expense. Janitorial service will be provided after hours five (5) days a week. All requests for trash removal other than normal janitorial services should be directed to Landlord at (919) 872-4924.

21. **Construction**. Tenant shall make no structural or interior alterations of the Premises. All structural and nonstructural alterations and modifications to the Premises shall be coordinated through Landlord as outlined in the Lease. Completed construction drawings of the requested changes are to be submitted to Landlord or its designated agent for pricing and construction supervision.

EXHIBIT C
COMMENCEMENT AGREEMENT

This COMMENCEMENT AGREEMENT (the "First Amendment"), made and entered into as of this _____ day of _____, 1999, by and between **HIGHWOODS REALTY LIMITED PARTNERSHIP**, a North Carolina limited partnership, with its principal office at 3100 Smoketree Court, Suite 600, Raleigh, North Carolina 27604 ("Landlord") and _____ a _____ Corporation, with its principal office at _____ ("Tenant");

WITNESSETH:

WHEREAS, Tenant and Landlord entered into that certain Lease Agreement dated _____ (the "Lease"), for space designated as Suite _____, comprising approximately _____ rentable square feet, in the _____ Building, located at _____, City of _____, County of _____, State of North Carolina; and

WHEREAS, the parties desire to amend the Rent Schedule and further alter and modify said Lease in the manner set forth below,

NOW, THEREFORE, in consideration of the mutual and reciprocal promises herein contained, Tenant and Landlord hereby agree that said Lease hereinafter described be, and the same is hereby modified in the following particulars, effective as of _____:

1. The term of the Lease by and between Landlord and Tenant actually commenced on _____ (the "Commencement Date"). The initial term of said Lease shall terminate on _____ (the "Expiration Date"). Section 2, entitled "Term", and all references to the Commencement Date and Termination Date in the Lease are hereby amended.

2. Except as modified and amended by this First Amendment, the Lease shall remain in full force and effect.

IN WITNESS WHEREOF, Landlord and Tenant have caused this Agreement to be duly executed, as of the day and year first above written.

Tenant:
a corporation

By: _____
Name: _____
Title: _____
Date: _____
Attest: _____ Corporate Seal:
_____ Secretary

HIGHWOODS REALTY LIMITED PARTNERSHIP

a North Carolina limited partnership
By: Highwoods Properties, Inc., its general partner
a Maryland corporation

By: _____
Marcus H. Jackson, Senior Vice President
Date: _____
Attest: _____ Corporate Seal:
Kathleen E. Kowalski, Assistant Secretary

EXHIBIT D

STATE OF NORTH CAROLINA :

COUNTY OF DURHAM : DECLARATION

THIS DECLARATION, made this first day of July, 1986, by THE NELSON COMPANY, a North Carolina partnership, hereinafter referred to as "Declarant";

WITNESSETH:

WHEREAS, Declarant is the owner of those certain tracts or parcels of land situated in Durham County, North Carolina, which land is known as Creekstone Office Park, and which is more particularly described on Exhibit A hereto attached, said property being hereinafter referred to as the "Real Property", and

WHEREAS, Declarant in order to establish an overall plan for the development and improvement of Creekstone Office Park desires to impose on the Real Property restrictions for the benefit of Declarant, all purchasers of lots or buildings located or to be located therein, and tenants which may occupy space in said Center.

NOW, THEREFORE, Declarant hereby declares that the Real Property shall he held, sold and conveyed subject to the following covenants, easements, conditions and restrictions, all of which are for the purpose of protecting the value and desirability of, and which shall run with, the Real Property described and be binding on all parties having any right, title or interest therein, along with their heirs, successors, assigns, lessees, tenants, and occupants, and which shall inure to the benefit of each owner thereof.

ARTICLE I - DEFINITIONS AND PURPOSES

Section 1. Definitions.

(a) "Association" shall mean and refer to Creekstone Office Park, Inc., its successors and assigns, a corporation, now formed or to be formed by Declarant.

(b) "Declarant" shall mean and refer to The Nelson Company, a North Carolina partnership, its successors or assigns or designees as Declarant hereunder.

(c) "Properties" shall mean and refer to the Real Property hereinafter described, along with any additional real property subjected to this Declaration as herein provided.

(d) "Common Property" shall mean and refer to all real and personal property owned, now or in the future, by the Association for the common use and enjoyment of all of the Owners and conveyed to the Association by Declarant.

(e) “Lot” shall mean and refer to any plot of land shown upon any recorded subdivision map and included within the bounds of the description of the Properties with the exception of the Common Property.

(f) “Owner” shall mean and refer to the record owner, whether one or more persons or entities, of the fee simple title to any Lot which is a part of the Properties, except those having such interest merely as security for the performance of an obligation.

(g) “Member” shall mean and refer to those persons entitled to membership in the Association.

(h) An “Institutional Loan” shall be that mortgage loan made by any state or federally regulated financial institution, any life insurance company, mortgage banker, pension fund, trust or other similar organization that regularly engages in the making of mortgage loans.

Section 2. Purposes. The purposes for which the Properties are subjected to this Declaration are:

(a) To insure the best use and the most appropriate development and improvement of each Lot; and

(b) To protect the Owners of Lots against such improper use of surrounding Lots as will depreciate the value of their property; and

(c) To preserve, so far as practicable, the natural beauty of said property; and

(d) To guard against the erection thereon of poorly designed or proportioned structures, and structures of improper or unsuitable materials; and

(e) To insure the highest and best development of the property; and

(f) To encourage and secure the erection of high quality buildings, of appropriate sizes and heights with appropriate locations thereof on Lots; and

(g) To prevent haphazard and inharmonious improvement of Lots; and

(h) To secure and maintain proper set-backs from streets, and adequate free spaces between structures; and

(i) To generally provide adequately for a high type and quality of improvement in said property; and

(j) To enhance the values of investments made by purchasers of Lots; and

(k) To make provisions for the Association.

ARTICLE II - PROPERTIES

Section 1. Description. The Real Property subject to this Declaration is described on Exhibit A hereto attached and incorporated herein by this reference thereto.

Section 2. Additions to Properties. Additional Real Property in the general area of Creekstone Office Park may be subjected to this Declaration by Declarant upon the filing of record Supplementary Declarations describing the same, and thereupon the operation and effect of this Declaration shall be extended to such additional property. The Supplementary Declarations may contain such complimentary additions and modifications of this Declaration as it pertains to such additional Properties as may be necessary or convenient, in the judgment of Declarant, to reflect the different character, if any, of the added Properties.

ARTICLE III - COMMON PROPERTY

Section 1. Title. The Common Property shall include all open spaces, jogging trails, walkways, signs, entrances, medians and streets, not maintained by a public body, along with other areas that benefit the Properties which are conveyed to the Association by Declarant from time to time. Declarant agrees to convey the Common Property located in each phase of development to the Association on or before the completion of the development of the Properties.

Section 2. Owners' Rights. Every Owner shall have a right and easement of enjoyment in and to the Common Property which shall be appurtenant to and shall pass with the title to every Lot subject to the rules and regulations adopted from time to time by the Association.

ARTICLE IV - MEMBERSHIP

Section 1. Members. Every person or entity who is a record Owner of a fee or undivided fee interest in any Lot which is included in the Properties shall be a Member of the Association; provided that persons or entities who hold an interest in a Lot merely as security for the performance of an obligation shall not be Members. Membership shall be appurtenant to and may not be separated from ownership of any Lot included in the Properties.

Section 2. Classes of Membership. The Association shall have two classes of membership:

(a) Class A. The Class A Member shall be the Declarant prior to termination of the Class A membership as herein provided.

(b) Class B. Class B Members shall be all Owners, except for Declarant, prior to the termination of Class A membership as hereinafter provided. If Declarant owns one or more Lots upon the termination of the Class A membership, then, Declarant shall be a Class B Member.

Section 3. Termination of Class A Membership. The Class A membership shall cease and terminate on the happening of the earlier of:

(a) The recording of a document in the Office of the Register of Deeds, Durham County, North Carolina by Declarant declaring an end to such Class A membership and its effective date of termination; or

(b) The sale by Declarant of all of the Properties, other than that dedicated to public use or conveyed as Common Property; or

(c) The date of 31 July 2001.

ARTICLE V - VOTING

Section 1. Class A. Except for matters concerning special assessments, the Class A Member (Declarant) shall be the only Member entitled to vote in the Association until the time the Class A Membership ceases.

Section 2. Class B. Except for matters concerning special assessments, Class B Members shall not be entitled to vote until termination of the Class A membership, at which time Class B Members shall be entitled to one vote for each acre owned in the Properties plus a fractional vote for each fractional acre. The vote for any one Lot owned by more than one person or entity shall be exercised as they among themselves determine, but in no event shall more than one vote be cast with respect to each acre owned. If multiple owners of any one Lot cannot agree among themselves as to who shall vote for them, or how they shall vote, they shall have no vote.

Section 3. Special Assessments. On all matters concerning a special assessment relating to the Common Property, the voting shall, prior to termination of the Class A membership, be as follows:

(a) Class A. The Class A Member (Declarant) shall have one vote for each acre owned in the Properties, plus a fractional vote for each fractional acre.

(b) Class B. The Class B Members shall have one vote for each acre owned in the Properties, plus a fractional vote for each fractional acre.

Section 4. Amendments. On all matters concerning amendments to this Declaration, the voting shall be by the Class A Member only; and the Class B Members shall be entitled to vote as hereinabove specified in Section 2 of this Article as to all matters subsequent to the termination of Class A membership.

ARTICLE VI - GENERAL ASSESSMENTS

Section 1. Liability of Owners for Assessments and Other Charges.

(a) The Owner or Owners of each Lot shall be personally liable, jointly and severally, to the Association for the payment of all assessments, annual or special, which may be levied by the Association against such Lot while such party or parties are Owner or Owners of a Lot. In the event that any Owner or Owners are in default in payment of any assessment or installment thereof owed to the Association, such Owner or Owners shall be personally liable, jointly and severally, for interest on such delinquent assessment or installment thereof as herein provided, and for all costs of collecting such assessment or installment thereof and interest thereon, including a reasonable attorneys' fees, whether suit be bought or not.

(b) No Exemption. No Owner of a Lot shall be exempt from liability for any assessment levied against him or his Lot by waiver of the use or enjoyment of any of the Common Property, or by abandonment of the Lot or in any other way.

(c) Assessment Lien Granted. Recognizing that proper operation and management of the Common Property requires the continuing payment of costs and expenses therefor, and that such proper operation and maintenance results in benefit to all of the Owners and that the payment of such common expenses represented by the assessments levied and collected by Association is necessary in order to preserve and protect the investment of each Owner, the Association is hereby granted a lien upon each Lot, which lien shall secure and does secure the monies due for all assessments now or hereafter levied against the Owner of each such Lot, which lien shall also secure interest, if any, which may be due on the amount of any delinquent assessments owing to the Association, and which lien shall also secure all costs and expenses, including a reasonable attorneys' fee, which may be incurred by the Association in enforcing this lien upon said Lot. The lien granted to the Association may be foreclosed in the same manner that real estate deeds of trust and mortgages may be foreclosed in the State of North Carolina, and in any suit for the foreclosure of said lien, the Association shall be entitled to a reasonable rental from the Owner of any Lot from the date on which the payment of any assessment or

installment thereof became delinquent, and shall be entitled to the appointment of a Receiver for said Lot. The lien granted to the Association shall further secure such advances for taxes, and payments on account of superior mortgages, liens or encumbrances which may be required to be advanced by the Association in order to preserve and protect its lien, and the Association shall further be entitled to interest at the rate specified in Article VII, Section 4 for assessments. All persons, firms, or corporations who shall acquire, by whatever means, any interest in the ownership of any Lot, or who may be given or acquire a mortgage, lien or other encumbrance thereon, are hereby placed on notice of the lien rights granted to the Association, and shall acquire such interest in any Lot expressly subject to such lien rights.

(d) Enforcement of Lien. The lien herein granted unto the Association shall be enforceable from and after the time of recording a Claim of Lien in the Public Records of Durham County, North Carolina, in the manner provided therefore by Article 8 of Chapter 44 of the North Carolina General Statutes, which claim shall state the description of the Lot encumbered thereby, the name of the record owner, the amount due and date when due. The claim of lien shall be recordable any time after default and the lien shall continue in effect until all sums secured by said lien as herein provided shall have been fully paid. Such claims of lien shall include only assessments which are due and payable when the claim of lien is recorded, plus interest, costs, attorneys' fees, advances to pay taxes and prior encumbrances and interest thereon, all as above provided. Such claims of lien shall be signed and verified by an officer or agent of the Association. Upon full payment of all sums secured by such claim of lien, the same shall be satisfied or record.

(e) Lien Subordination to Mortgage. The lien provided for herein shall be subordinate to the lien of any first lien mortgage or deed of trust given to secure an Institutional Loan, and any person, firm or corporation acquiring title to any Lot by virtue of any foreclosure, deed in lieu of foreclosure or judicial sale resulting from such first lien mortgage or deed of trust shall be liable and obligated only for assessments as shall accrue and become due and payable for said Lot subsequent to the date of acquisition of such title, and it shall not be liable for the payment of any assessments which were in default and delinquent at the time it acquired such title. In the event of the acquisition of title to a Lot by foreclosure, deed in lieu of foreclosure or judicial sale, any assessment or assessments as to which the party so acquiring title shall not be liable shall be absorbed and paid by all Owners of all Lots, including such purchaser, his

successors and assigns, as a part of the annual assessment, although nothing herein contained shall be construed as releasing the party liable for such delinquent assessment from the payment thereof or the enforcement of collection of such payment by means other than foreclosure.

(f) Purchaser Liable for Delinquent Assessments. In any voluntary conveyance of a Lot, the Purchaser thereof shall be jointly and severally liable with Seller for all unpaid assessments against Seller made prior to the time of such voluntary conveyance, without prejudice to the rights of the Purchaser to recover from Seller the amounts paid by Purchaser therefor.

(g) Remedies. Institution of a suit at law to attempt to effect collection of the payment of any delinquent assessment shall not be deemed to be an election by the Association which shall prevent it from thereafter seeking, by foreclosure action, enforcement of the collection of any sums remaining owing to it, nor shall proceeding by foreclosure to attempt such collection be deemed to be an election precluding the institution of a suit at law to collect any sum then remaining owing to Association.

Section 2. Purpose of Annual Assessments. The annual assessments levied by the Association shall be used exclusively for the improvement, maintenance, and operation of the Common Property, including, but not limited to, the payment of taxes and insurance thereon, the maintenance, repair, replacement and additions thereof, and for the cost of labor, equipment, materials, management and supervision of said Common Property.

Section 3. Maximum Annual Assessment. The annual assessment shall be established by the Association based upon estimated costs for the assessment year with a charge being made for each acre, with fractions of acres and fractions of calendar years to be computed at the same rate for 1986 and shall increase each year at the rate of Association's cost and expenses with respect to the Common Property. Notwithstanding the foregoing, the maximum annual assessment shall be FIVE HUNDRED AND N0/100 ($500.00) DOLLARS per acre for 1986 with a maximum annual increase of fifteen (15%) percent per year thereafter until December 31, 1995.

Section 4. Special Assessments. In addition to the annual assessments hereinabove authorized, the Association may levy special assessments, for the purpose of defraying, in whole or in part, the cost of any construction or reconstruction, unexpected repair or replacement of the Common Property, including the necessary fixtures and personal property related thereto,

provided that any such special assessment shall have the assent of two-thirds (2/3rds) of the combined votes of Class A and Class B Members, as provided in Article V, Section 3, at an annual or special meeting of the membership, Special assessments shall be due and payable on the date(s) fixed by the resolution authorizing the same.

Section 5. Allocation of Assessments. Both Annual and Special assessments shall be charged to, and payable by, both Class A and Class B members on the same proportions basis that those members are entitled to cast votes pursuant to Article V, Section 3, and the Association shall determine the date such assessment payments are due and the manner of payment.

ARTICLE VII - ASSESSMENTS

Section 1. Commencement. Assessments shall commence on the date fixed by the Board of Directors, but not prior to September 1, 1986, or upon purchase of a Lot from Declarant, whichever later occurs. Assessments on Lots that first become subject to Assessments during a calendar year shall be prorated on a calendar year basis for the remainder of such calendar year.

Section 2. Due Date. Unless otherwise provided herein, Assessments shall be due and payable in full within thirty (30) days after billed to an Owner by the Association.

Section 3. Records of Assessments. The Officers of the Association shall cause to be maintained in the office of the Association a record of all Lots and Assessments applicable thereto which shall be open to inspection during business hours by any Owner. Written notice of each Assessment shall be mailed to every Owner of a Lot subject to Assessment.

The Association shall upon request and payment of a reasonable charge furnish to any Owner liable for Assessment a certificate in writing signed by an Officer of the Association, setting forth whether the Assessments against the Owner's Lot is paid, and if not, the amount due to pay the same. Such certificate shall be conclusive evidence as to the status of Assessments as of the date of the certificate against such Lot.

Section 4. Effect of Non-Payment of Assessment. If any annual Assessment or Special Assessment is not paid on the date when due, then such Assessment shall become delinquent and shall accrue interest thereon at the rate in effect on the due date as established by the North Carolina Commission of Banks under N.C.G.S. G24-1.1(2) from the date due until paid.

If an Assessment is not paid within thirty (30) days after the due date, the Association may bring an action at law against the Owner personally and/or foreclose its lien therefor against the property, and there shall be due, in addition to the amount of such Assessment, reasonable attorney's fees and costs incurred by the Association in such action, and in the event a judgment is obtained, such judgment shall include interest on the Assessment as above indicated, plus such fees and costs.

ARTICLE VIII - BUILDING AND USE

Section 1. Uses. Lots may be used for offices, businesses, hotels, motels, restaurants, and such other compatible uses as may be approved by the Architectural Committee, but none of which may produce and emit gases, smokes, odors, vibrations or noises that would be objectionable in a high quality, environmentally controlled commercial development.

Section 2. Set Back Requirements. All parking areas and interior driveways shall have a minimum set back of ten (10) feet from all exterior property lines, and shall have an average set-back of fifteen (15) feet from such lines. All buildings and structures (except small incidental buildings such as a gate house which must specifically be approved in writing by the Architectural Committee) shall be constructed to have a minimum set back of twenty (20) feet (measured from the face or wall of the building) from any rear or side property line and fifty (50) feet from the front lot line.

Section 3. Site and Architectural Standards. All driveways, parking areas, roads, and walkways, shall be paved and except for walkways shall be screened with berms and/or landscaping. Buildings shall be constructed with uniform materials and treatment on all exposed sides. Loading areas shall not encroach into set back areas, and shall be screened so as not to be visible from the streets. Parking in front of the buildings but not in set back areas shall be permitted but shall not be used for delivery or service vehicles. Parking lots larger than 130 feet by 200 feet, or providing parking for more than four rows of cars shall be separated by landscaped areas or berms at least twelve feet in width unless the Architectural Committee gives written consent to such lot. All utilities shall be underground, and all trash disposal facilities shall be adequately screened on all exposed sides. Any exterior equipment, such as cooling towers or condensors, TV or radio antennas, must be adequately screened. No exterior storage shall be permitted on any lot except while necessary during construction of buildings. No mailboxes or on-street parking shall be permitted, and signs, street and site lighting must be approved by the Architectural Committee.

All property shall be landscaped and planted within ninety (90) days of completion of the buildings, and all plantings shall be kept neatly trimmed, properly cultivated and free of trash or other unsightly material. Buildings and grounds shall be maintained in a neat, orderly and presentable fashion, and unless publicly maintained, Owners shall maintain rights of way on which their property fronts.

Section 4. Signs. No sign shall be erected or maintained on any Lot (nor by any Owner on the Common Property) except in conformity with the following regulations:

a. All sign designs are subject to approval by the Architectural Committee and shall be placed at a location as approved by the Committee.

b. Signs shall be restricted to advertising only the person, firm or company operating the use conducted on the Lot. No signs may be attached to buildings.

c. An identification sign will be erected at the entrance to each Lot in an area designated by the Architectural committee. The design, format and materials of the sign will be consistent with the site architecture in the development. No flashing or moving elements will be permitted.

d. A sign advertising the sale or lease of a building may be permitted only upon approval from the Architectural Committee, who may control the size, content and duration that the sign can remain.

e. Signs with a maximum size of four feet by eight feet (4 x 8) will be permitted during construction which denote the architect, engineer, contractor, other related professionals, and intended occupancy of the building.

f. Directional, traffic or parking control signs on the site will be reviewed by the Committee with the intent that the signs be restricted to the minimum necessary, be visually unobstructive, and consistent in format, letter and coloring.

Section 5. Approval of Development - Architectural Committee. Construction on any Lot shall be subject to approval by the Architectural Committee. Each Lot Owner prior to the commencing of any construction shall submit to the Architectural Committee site and engineering plans, preliminary plans showing building elevations, exterior materials, location of all exterior mechanical equipment, proposed service, loading end parking areas, drives and

walkways, and such other information as the Architectural Committee may reasonably require to enable it to determine that the Owner's plans are consistent with the general plan of development of the Property. A variety of different types of exterior wall materials should be utilized for aesthetic purposes. There should be strong transitions between changes of materials and plans, while maintaining an overall geometry for the building mass. A façade unrelated to the rest of the building will not be acceptable. All four sides of any building must receive equal design considerations since most sites expose all four sides. The Architectural Committee shall not unreasonably withhold or delay its approval of plans, and if the Committee has not requested additional information or notified the applicant of disapproval with reasons therefor within twenty (20) business days after the preliminary information requesting approval of plans is submitted to it, then such plans shall be deemed approved, and construction may commence.

Owners shall furnish to the Architectural. Committee for approval prior to commencement of construction its plans for landscaping and planting, sedimentation and impoundment to the extent required by any governmental authorities, completed exteriors, lighting and signs, and in general its final plans, together with any other special requests authorized under these protective covenants, approval of which shall neither be withheld or delayed unreasonably, and which shall be presumed unless Owner is notified to the contrary within twenty (20) days after the submission thereof.

No trees or shrubs may be removed from any Lot unless such removal shall have been expressly approved in writing by the Architectural Committee.

In addition to the approval of plans and other matters herein set forth the Architectural Committee shall have the right to waive minor violations and permit minor variances where the same resulted unintentionally or without gross carelessness on the part of the Owner and no material harmful effect to the Property results. If such waiver is granted in writing, then thereafter such matters so waived shall no longer be deemed a violation of these protective covenants.

The Architectural Committee shall consist of three members appointed by Declarant, who is empowered to appoint their successors should a vacancy occur, and their names shall be maintained at Declarant's office. By Supplemental Declaration the Declarant may delegate to the Association the authority and duty to appoint the Architectural Committee.

Section 6. Subdivision - Easements. So long as Declarant owns any part or portion of the Properties, Declarant may subdivide, recombine Lots, change Lot lines or make adjustments in that portion of the Properties owned, including Lots previously subdivided and owned by Declarant. However, no Owner may reduce the size of any Lot owned by it, or may, recombine or subdivide any Lot owned by it without the prior written approval of Declarant prior to the termination of the Class A membership. Easements twenty (20) feet in width are reserved along the side and rear lines of each Lot for installation and maintenance of utility, sewer and drainage facilities, but this reservation shall not prevent the construction of parking or driveways over such easements providing that set back requirements contained in Section 2 of this Article are at all times met.

Declarant reserves the right from time to time hereafter to delineate, grant or reserve within the remainder of the Properties not theretofore conveyed to Owners such public streets, roads, sidewalks, ways and appurtenances thereto, and such easements for drainage and public utilities as it may deem necessary or desirable for the further development of the Properties free and clear of these restrictions and covenants, and to dedicate the same to public use or to grant the same to other appropriate utility corporations.

Section 7. Maintenance. Each owner shall at all times keep such owner's premises, buildings, improvements and appurtenances in a safe, clean, neat and sanitary condition and shall comply with all laws, ordinances and regulations pertaining to health and safety. Each property owner shall provide for the removal of trash and rubbish from its premises.

During construction it shall be the responsibility of each property owner to ensure that construction sites are kept free of unsightly accumulations of trash, rubbish and scrap materials and that construction materials, trailers and the like are kept in a neat and orderly manner.

ARTICLE IX - GENERAL PROVISIONS

Section 1. Duration and Amendments. The covenants and restrictions of this Declaration shall run with and bind the land, and shall inure to the benefit of and be enforceable by the Association, the Declarant, or the Owner of any land subject to this Declaration, their respective legal representatives, heirs, successors and assigns, for a term of forty (40) years from the date this Declaration is recorded, after which time said covenants shall be automatically extended for successive periods of ten (10) years, unless two-thirds (2/3rds) of the vote of the Class B Members present and voting in person or by proxy at a duly called meeting of the

Association at which a quorum is present approves a change in the covenants and restrictions or a termination thereof. Upon termination of the Class A memberships, these covenants may be amended at any time, if two-thirds (2/3rds) of the vote of the Class B Members present and voting in person or by proxy at a duly called meeting of the Association at which a quorum is present approves the change. Provided, however, that no such amendment shall be effective unless made and recorded sixty (60) days in advance of its effective date, and unless written notice of the proposed amendment is sent to every Member at least twenty (20), but not more than fifty (50) days, in advance of such meeting.

Section 2. Notices. Any notice required to be sent to any Member or owner under the provisions of this Declaration shall be deemed to have been properly sent, and notice thereby given, when mailed, postpaid, to the last known address of the person who appears as Member or Owner on the records of the Association at the time of such mailing. Notice to one Co-Owner of a Lot shall constitute notice to all Co-Owners. It shall be the obligation of every Member to immediately notify the Secretary of the Association in writing of any changes of address.

Section 3. Enforcement. Enforcement of the covenants shall be by proceeding at law or in equity against any person or entity violating or attempting to violate or circumvent any covenant, either to restrain violation or to recover damages, and against the land to enforce any lien created by these covenants; failure by the Association, Declarant, or any Owner to enforce any covenant herein contained for any period of time shall in no event be deemed a waiver or estoppel of the right to enforce the same at a later time.

Section 4. Severability. Should any covenant or restriction herein contained or any Article, Section, Subsection, sentence, clause, phrase, or term of this Declaration be declared to be void, invalid, illegal, or unenforceable, for any reason, by the adjudication of any court or other tribunal having Jurisdiction over the parties hereto and the subject matter hereof, such judgment shall in no wise affect the other provisions hereof which are hereby declared to be severable and which shall remain in full force and effect.

Section 5. Construction Regulations. If Exhibit B is attached hereto, then the Construction Regulations as set forth therein shall apply to any work an Owner proposes to do on any of the Properties. Once a Lot is fully developed, certificates of occupancy issued therefor, landscaping completed, and the buildings placed in use, such Regulations will no longer apply.

IN WITNESS WHEREOF, Declarant has caused this instrument to be duly executed the day and year first above written.

THE NELSON COMPANY, (SEAL)
A North Carolina General Partnership

By: /s/ O. Temple Sloan, Jr. (SEAL)
O. Temple Sloan, Jr., General Partner

By: /s/ Robert L. Jones (SEAL)
Robert L. Jones, General Partner

By: /s/ E. Stephen Stroud (SEAL)
E. Stephen Stroud, General Partner

By: /s/ Ronald P. Gibson (SEAL)
Ronald P. Gibson, General Partner

STATE OF NORTH CAROLINA :
COUNTYOF WAKE :

I, Alma S. Painter, a Notary Public, certify that O. Temple Sloan, Jr., General Partner in The Nelson Company, a North Carolina General Partnership, personally appeared before me this day and acknowledged the due execution of the foregoing instrument for the purposes therein expressed.

Witness my hand and Notarial Stamp/Seal this 12th the day of December, 1986.

/s/ Alma S. Painter
Notary Public
My Commission expires: 12-6-89

STATE OF NORTH CAROLINA :
COUNTY OF WAKE : :

I, Alma S. Painter, a Notary Public, certify that Robert L. Jones, General Partner in The Nelson Company, a North Carolina General Partnership, personally appeared before me this day and acknowledged the due execution of the foregoing instrument for the purposes therein expressed.

Witness my hand and Notarial Stamp/Seal this 15th the day of December, 1986.

/s/ Alma S. Painter
Notary Public
My Commission expires: 12-6-89

STATE OF NORTH CAROLINA :
COUNTY OF WAKE :

I, Alma S. Painter, a Notary Public, certify that E. Stephen Stroud, General Partner in The Nelson Company, a North Carolina General Partnership, personally appeared before me this day and acknowledged the due execution of the foregoing instrument for the purposes therein expressed.

Witness my hand and Notarial Stamp/Seal this 12th the day of Dec, 1986.

/s/ Alma S. Painter
Notary Public
My Commission expires: 12-6-89

STATE OF NORTH CAROLINA :
COUNTY OF WAKE :

I, Alma S. Painter, a Notary Public, certify that Ronald P. Gibson, General Partner in The Nelson Company, a North Carolina General Partnership, personally appeared before me this day and acknowledged the due execution of the foregoing instrument for the purposes therein expressed.

Witness my hand and Notarial Stamp/Seal this 12th the day of Dec, 1986.

/s/ Alma S. Painter
Notary Public
My Commission expires: 12-6-89

EXHIBIT A TO DECLARATION BY THE NELSON COMPANY AS DECLARANT, DATED THE 1st DAY OF JULY, 1986,

BEGINNING at a concrete, monument located in the northern right of way line of Page Road, said monument being located at North Carolina grid coordinates Y=775,996.78 and X=2,044,485.55 and said monument being further identified as being located 444.63 feet North 36º 18' 02" East from North Carolina Geodetic Survey monument "Green 2"; runs thence with the northern right of way line of Page Road North 37º 31' 11" West 161.84 feet to a new iron pipe, said iron pipe being located at the intersection of the eastern right of way line of Raleigh Road with the northern right of way line of Page Road; runs thence with the eastern right of way line of Raleigh Road North 01º 49' 19" East 285.38 feet to a concrete monument; runs thence leaving the eastern right of way line of Raleigh Road North 89º 24' 52" East 227.62 feet to a concrete monument; runs thence North 83º 24' 13" East 126.28 feet to an existing iron pin in the line of the property now or formerly belonging to Cedar Fork Baptist Church; runs thence with the line of Cedar Fork Baptist Church South 06º 04' 22" East 144.12 feet to an existing iron pin, a corner in the line of the property now or formerly belonging to Cedar Fork Baptist Church; runs thence with the southern line of the property now or formerly belonging to Cedar Fork Baptist Church South 88º 47' 57" East 100.00 feet to an existing iron pin, a corner in the line, of the property now or formerly belonging to Cedar Fork Baptist Church; runs thence with the line of the property now or formerly belonging to Cedar Fork Baptist Church North 06º 03' 39" West 150.10 feet to an existing iron pin; runs thence South 88° 41' 15" East 586.44 feet to an existing iron pin, said pin marking the southeast corner of that property now or formerly belonging to A. D. O'Neal and southwest corner of that property now or formerly belonging to C. B. Green; runs thence with the southern line of that property now or formerly belonging to C. B. Green South 87º 55' 43" East 1,015.02 feet to an existing iron pin; runs thence South 05º 04' 59" East 369.32 feet to an existing pipe, the northwest corner of that property now or formerly belonging to Imperial Center Partnership; runs thence with the western line of that property now or formerly belonging to Imperial Center Partnership South 00º 40' 45" East 388.64 feet to a concrete monument located in the northern right of way line of Page Road; runs thence with the northern right of way line of Page Road the following courses and distances; South 66º 24' 05" West 199.64 feet to a concrete monument, South 81º 21' 38" West 405.37 feet to a concrete monument; thence with the northern right of way line of Page Road in a generally westerly direction along a curve to the right having a radius of 1,839.86 feet for an arc distance of 1,552.929 feet to a concrete monument, the point and place of BEGINNING; containing 37.4850 acres as shown on that survey entitled "A Portion of Hubert H. Green Estate" prepared by Murphy & Associates, Registered Land Surveyors, and dated November, 1982.

EXHIBIT B TO DECLARATION BY THE NELSON COMPANY, DECLARANT, DATED THE 1st DAY OF JULY, 1986.

CONSTRUCTION REGULATIONS

Construction at Creekstone Office Park is expected to take a number of years. In order to assure that there will be no environmental damage and in order to maintain an attractive, nuisance-free setting during the extended period of construction, special criteria will be imposed to insure that environmental and visual protection is provided during construction. Construction fences to screen vision of the site may be required.

Before construction begins, the applicant will submit to the Architectural Committee a program which delineates the proposed methods of compliance with criteria set forth in this section. This program may be submitted at the time of final plan approval, but it is required that the builder or contractors be given the opportunity to participate in formulating this program. In any event, the Committee should approve or make appropriate recommendations within twenty days.

The criteria are as follows:

1. Equipment Access

Access to each construction site will be limited to one location along the public or common roadway subject to approval by the Committee. Mud, dirt, or other surface debris deposited on the public or common roadway at the access point will be washed or removed daily to avoid compaction and damage to the roadway and to minimize impact on the drainage system.

2. Temporary Structures

Temporary structures, portable offices, and other related facilities will be maintained in good repair and arranged in a compact and organized manner on the construction site. These facilities will be situated so as not to be unobtrusive or unsightly when seen from the road or adjacent properties. Location will be submitted and approved as part of the design review process.

All temporary structures and portable facilities will be removed upon the completion of all construction activity and before occupancy of the building.

It should be noted that the Declarant has maintained certain structures on the property for use by the contractors upon request.

3. Temporary Utilities

All temporary utilities on the construction site will be contained in a single, unobtrusive alignment. Distribution to the various areas of construction will be from an approved onsite location.

4. Equipment and Materials Storage

The area designated for storage of equipment and materials will be at a location that will be visually unobtrusive from the roadway and adjacent properties. Mobile equipment is to be aligned in an orderly manner at the end of each work day.

5. Construction Debris

Construction debris will be totally concealed during construction by locating it in a visually screened place until it is to be removed on a regular basis. Burial of debris will not be permitted.

After construction is completed, temporary barriers, surplus materials, and all trash, debris, and rubbish will be removed from the site. All backfill will be cleared of building material, stone, and rubbish.

6. Soil Stockpiling

Both topsoil and fill material stockpiled on the site will be seeded or mulched and appropriately graded to avoid erosion. Stockpiles will be maintained and kept weed-free.

7. Interim Signs

Construction signs will conform to specified criteria in order to maintain the sense of overall continuity. The sign will identify the name of the project facility, the parties participating in the design and construction, and the anticipated date of occupancy.

The location of the sign will follow the same criteria as that for permanent signs. The sign will be removed upon completion of the project. The size, format, and location will be limited to that specified for the permanent major identification sign for each parcel.

8. Erosion and Siltation Control during Construction

Methods of controlling erosion and sedimentation will be required during construction, in order to prevent irreversible ecological damage to fragile natural areas on and off the site, to avoid impact on adjacent roads and properties, and to avoid creating a visual nuisance. The controls will be planned as an integral part of the construction operation.

9. Tree Protecting during Construction and as a Condition of Site Modification

All trees and other plant materials designated in the approved design for preservation will be protected during construction and will be permanently protected in case of site modifications that alter the tree's environment. After the final site plan and before construction approval, those trees that are to remain shall be marked in the field by the builder. Damage or destruction of any tree will be the responsibility of the applicant whether caused by the applicant, its agents, employees, contractors or licensees.

STATE OF NORTH CAROLINA :
DURHAM COUNTY :

AMENDMENT TO DECLARATION
OF CREEKSTONE OFFICE PARK

This Amendment to Declaration of Creekstone Office Park made and entered into as of the 29th day of December, 1993, by The Nelson Company, a North, Carolina General Partnership.

WITNESSETH:

The Nelson Company is the Declarant under that certain Declaration dated July 1, 1986, recorded March 17, 1987, in Book 1353, Page 196, Durham County Registry (herein after the "Declaration"); and

Declarant desires to amend the terms and provisions of the Declaration as more particularly set forth herein after.

NOW, THEREFORE, Declarant hereby amends the Declaration as follows:

That portion of the Real Property as described on Exhibit A to the Declaration consisting of .90 acres and being all of Lot C of Creekstone office Park, an shown on that plat entitled "Subdivision Plat - Creekstone Office Park - Lot C & 25' Sanitary Sewer Easement" dated November 29, 1993 revised December 13, 1993, and recording on December 17, 1993 in Plat Book 130, Page 215, Durham County Registry, is hereby deleted and excluded from the Properties under the Declaration so that the Declaration shall not apply to the aforesaid Lot C.

IN WITNESS WHEREOF, Declarant has caused this Amendment to Declaration to be executed as of the day and year first above written.

THE NELSON COMPANY (SEAL)

By: /s/ O. Temple Sloan, Jr. (SEAL)
O. Temple Sloan, Jr., General Partner

By: /s/ C. Hamilton Sloan (SEAL)
C. Hamilton Sloan, General Partner

By: /s/ E. Stephen Stroud (SEAL)
E. Stephen Stroud, General Partner

STATE OF NORTH CAROLINA :
COUNTY OF :

I, the undersigned Notary Public, certify that O. Temple Sloan, Jr., General Partner of The Nelson Company, personally appeared before me this day and acknowledged the due execution of the foregoing instrument for the purposes therein expressed.

Witness my hand and Notarial Stamp/Seal this 5th the day of January, 1994.

/s/ Catherine J. Rosebaugh
Catherine J. Rosebaugh
Notary Public
My Commission expires: 4/26/94

STATE OF NORTH CAROLINA :
COUNTY OF WAKE :

I, the undersigned Notary Public, certify that C. Hamilton Sloan, General Partner of The Nelson Company, personally appeared before me this day and acknowledged the due execution of the foregoing instrument for the purposes therein expressed.

Witness my hand and Notarial Stamp/Seal this 5th the day of January, 1994.

/s/ Catherine J. Rosebaugh
Catherine J. Rosebaugh
Notary Public
My Commission expires: 4/26/94

STATE OF NORTH CAROLINA :
COUNTY OF WAKE :

I, the undersigned Notary Public, certify that E. Stephen Stroud, General Partner of The Nelson Company, personally appeared before me this day and acknowledged the due execution of the foregoing instrument for the purposes therein expressed.

Witness my hand and Notarial Stamp/Seal this 5th the day of January, 1994.

/s/ Catherine J. Rosebaugh
Catherine J. Rosebaugh
Notary Public
My Commission expires: 4/26/94

EXHIBIT E

VISITOR SIGN-IN

Visitors acknowledges that by reason of its access to the Premises it may also have access to Tenant's confidential information, including but not limited to trade secrets. Visitors agree to keep all such "confidential information" confidential and to neither use nor divulge the confidential information to any third party.

NAME	COMPANY REPRESENTED	PURPOSE OF VISIT	TIME IN:	TIME OUT:

EXHIBIT F

STATE OF NORTH CAROLINA :
COUNTY OF DURHAM :

MEMORANDUM
OF LEASE

HIGHWOODS REALTY LIMITED PARTNERSHIP, a North Carolina limited partnership, whose address is 3100 Smoketree Court, Suite 600, Raleigh, North Carolina 27604, hereby leases to BIOSTRATUM, INC., a Delaware corporation, whose address is 4825 Creekstone Drive, Suite 200, Durham, North Carolina 27703, for a term beginning the 1st day of April, 2001, and continuing for a period of seven (7) years with one (1) succeeding option to renew for a period of three (3) years, the following described property located in the City of Durham, Durham County, North Carolina, and more particularly described as follows:

The approximately 35,600 rentable square feet located in the Maplewood Building located at 4620 Creekstone Drive, Durham, North Carolina, which parcel is more particularly described in Exhibit A, attached.

The Lease does not contain an option to purchase.

The provisions set forth in a written lease agreement between the parties dated _____ 2000 are incorporated herein by reference in this Memorandum.

This __ day of _____, 2000.

HIGHWOODS REALTY LIMITED PARTNERSHIP
a North Carolina limited partnership
By: Highwoods Properties, Inc. its general partner
a Maryland corporation

By: _____
Marcus H. Jackson, Senior Vice President

BIOSTRATUM, INC.
a Delaware corporation
By: _____

_____

STATE OF NORTH CAROLINA
COUNTY OF _____

I, the undersigned Notary Public, certify that _____ personally came before me this day and acknowledged that _____ he is _____ of **Highwoods Properties, Inc.**, a Maryland corporation and that by authority duly given and as the act of the company, as general partner of **Highwoods Realty Limited Partnership**, a North Carolina limited partnership, _____ he signed the foregoing instrument in its name.

WITNESS my hand and notarial seal, this __ day of _____, 2000.

Notary Public: _____

My Commission Expires: _____

STATE OF NORTH CAROLINA
COUNTY OF _____

I, the undersigned Notary Public, certify that _____ personally came before me this day and acknowledged that _____ he is _____ Secretary of **Biostratum, Inc.**, a Delaware corporation, and that by authority duly given and as the act of the corporation, the foregoing instrument was signed in its name by _____ , as its _____ President, attested by _____ as its _____ Secretary, and sealed with its common corporate seal.

WITNESS my hand and notarial seal, this _____ day of _____, 2000.

Notary Public: _____

My Commission Expires: _____

EXHIBIT G

HIGHWOODS/FORSYTH LIMITED PARTNERSHIP
BASE BUILDING IMPROVEMENTS AND UPFIT ALLOWANCE

Landlord will provide the improvements described below as Base Building Improvements at Landlord's sole expense:

Common area rest rooms completed, turnkey — ready to use.
4' x 4' suspended ceiling grid installed.
2' and 4' "Ts" for completion of ceiling grid purchased and inventoried on the floor.
2'x 2' regular ceiling tiles for entire ceiling area purchased and inventoried on the floor.
Insulation on all perimeter walls so as to allow access for electrical and voice/data installation;
No sheetrock on perimeter walls.
Interior loadbearing columns wrapped in sheetrock, taped, floated and ready for final finish.
Blinds provided and installed for all building perimeter windows.
One (1) variable air volume (VAV) air conditioning box installed per every 850 usable square feet.
One (1) deep 18 cell 2'x 4' parabolic light per every 80 usable square feet.
Electrical 120V power (3 circuits per 900 sf) and 277V lighting grid (1 circuit per 900 sf) roughin above the 4'x 4' ceiling grid.

EXHIBIT H

[BioStratum logo]

[Drawing of building with BioStratum logo on it]

Exhibit 4.40

CONSENT TO SUBLEASE

As of this 31st day of August, 2005, **HIGHWOODS REALTY LIMITED PARTNERSHIP** (the "Landlord"), **BIOSTRATUM, INC.** (the "Tenant") and **ADHEREX, INC.** (the "Subtenant") do hereby enter into this Consent to Sublease and Agreement (the "Agreement").

RECITALS

WHEREAS, Landlord and Tenant entered into that certain amended Office Lease dated September 8, 2000 (the "Lease") for approximately 35,600 rentable square feet of office space in the building commonly known as the Maplewood Building (the "Building"), located at 4620 Creekstone Drive, Durham County, North Carolina (the "Premises);

AND WHEREAS, Tenant and Subtenant have agreed to that a portion of the Premises (approximately 18,272 rentable square feet) will be assigned to Subtenant effective on January 1, 2006;

AND WHEREAS, Tenant and Subtenant have agreed that, as a condition of the assignment, that portion of the Premises being assigned to Subtenant shall be sublet to Subtenant prior to January 1, 2006, and effective on September 1, 2005 and have agreed to enter into a sublease of the Premises in the form attached hereto as Exhibit A (the "Sublease") for the period from September 1, 2005 through December 31, 2005 (the "Sublease Term");

NOW THEREFORE, Landlord does hereby consent to the Sublease in the form attached hereto, conditioned upon the agreement by Tenant and Subtenant of Paragraphs 1 through 12 hereof:

1. Tenant shall not be released in any manner from any of its obligations under the Lease.
2. During the Sublease Term, Tenant shall continue to pay to Landlord the rent payable by Tenant to Landlord under the Lease.
3. The Sublease shall be subject to all the terms and provisions of the Lease and no use or occupancy of the Subleased Premises (as defined in the Sublease) shall be permitted by Tenant or undertaken by Subtenant that is in any way inconsistent with the terms and provisions of the Lease. Subtenant agrees to comply with all provisions of the Lease, including Section 13 of the Lease, entitled "Insurance Requirements", and the requirement that Landlord be named as an additional insured.
4. Landlord shall not be obligated to Subtenant under any of the provisions of the Sublease.
5. Subtenant shall indemnify and hold Landlord harmless from and against any and all claims arising out of (a) Subtenant's use of the Subleased Premises or any part thereof; (b) any activity, work, or other thing done, permitted or suffered by Subtenant in or about the Subleased Premises or the building, or any part thereof; (c) any breach or default by Subtenant in the performance of any of its obligations under the Sublease; or (d) any act or negligence of Subtenant, or any officer, agent, employee contractor, servant, invitee or guest of Subtenant; and in each case from and against any and all damages, losses, liabilities, lawsuits, costs and expenses (including attorneys' fees at all tribunal levels) arising in connection with any such claim or claims as described in (a) through (d) above or any action brought thereon. If such action is brought against Landlord, Subtenant upon notice from Landlord

shall defend the same through counsel selected by Subtenant's insurer or other counsel, in each case acceptable to Landlord. Subtenant assumes all risk of damage or loss to its property or injuries or death to persons in, on, or about the Subleased Premises, from all causes except those for which the law imposes liability on Landlord regardless of any attempted waiver thereof, and Subtenant hereby waives such claims in respect thereof against Landlord. The provisions of this paragraph shall survive the termination of the Sublease.

6. This Agreement shall not be deemed to constitute a consent to any future amendment to the Sublease or sublease (or any future assignment) and each and every such proposed amendment or future sublease (and any proposed future assignment) shall require the prior written consent of Landlord, which Landlord may not arbitrarily refuse to give.

7. If Landlord so elects, the termination of the Lease by lapse of time or as otherwise provided in the Lease shall immediately cause the Sublease to be terminated and have no further force or effect.

8. Landlord is not a party to the Sublease. Therefore, Landlord's consent to the Sublease shall not constitute its consent to the particular terms and conditions of the Sublease and Landlord shall not be bound by or obligated to perform any of the terms and conditions of the Sublease.

9. Any options provided to Tenant in the Lease shall not be extended to or exercised by Subtenant, except as provided in the Partial Assignment of Lease and Lease Amendment Number Two entered between Landlord, Tenant and Subtenant as of the even date herewith.

10. Effective September 1, 2005 and pursuant to Section 24 of the Lease, the addresses for notice to Tenant and Subtenant are as follows:

TENANT:	**BIOSTRATUM, INC.** 2300 Englert Drive, Suite G Durham, North Carolina 27713 Phone #: 919/433-1000 Facsimile #: 919/433-1010
SUBTENANT:	**ADHEREX, INC.** 4620 Creekstone Drive, Suite 200 Durham, North Carolina 27703 Attn: Scott Murray, General Counsel
Facsimile #:	919/484-8001

11. Landlord shall have the right, if Tenant defaults under its obligations to Landlord, to collect all rents directly from Subtenant and apply the net amount collected to rent owed, but no action by Landlord to collect rent owed from Subtenant shall be deemed a release by Tenant of its obligations under the Lease, nor shall it create a contractual relationship between Subtenant and Landlord or give Subtenant any greater estate or right to the Premises other than provided by the Sublease.

12. To the extent that there may be conflict between the terms of this Consent and the terms of the Sublease, the terms of this Consent shall control.

[REMAINDER OF PAGE INTENTIONALLY BLANK
SIGNATURE BLOCKS ON NEXT PAGE]

TT
INITIALS
LL

IN WITNESS WHEREOF, Landlord, Tenant and Subtenant have caused this instrument to be executed as of the date first above written, by their respective officers or parties thereunto duly authorized.

Landlord: **HIGHWOODS REALTY LIMITED PARTNERSHIP**
a North Carolina Limited Partnership

By: Highwoods Properties, Inc., its general partner
a Maryland corporation

By: /s/ Robert G. Cutlip
Robert G. Cutlip,
Senior Vice President
and Regional Manager

Date: August 31, 2005

Attest: /s/ Cynthia A. Morgan Corporate Seal:

Cynthia A. Morgan, Assistant Secretary

Tenant:**BIOSTRATUM, INC.**
a Delaware corporation

By: /s/ Gary M. Gordon

Name: Gary Gordon, M.D.

Title: Vice President and Chief Financial Officer

Date: August 5, 2005

Attest: _____ Corporate Seal:

_____ Secretary

Subtenant: **ADHEREX, INC.**
a Delaware corporation

By: /s/ James A. Klein, Jr.

Name: James A. Klein, Jr.

Title: Chief Financial Officer

Date: August 17, 2005

Attest: _____ Corporate Seal:

_____ Secretary

EXHIBIT A

SUBLEASE

Exhibit 12.1

CERTIFICATION

I, William P. Peters, Chairman and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 20-F of Adherex Technologies Inc. (the "Company");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   (b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
   (c) Disclosed in this annual report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 30, 2006

By: /s/ William P. Peters
William P. Peters
Chairman and Chief Executive Officer

Exhibit 12.2

CERTIFICATION

I, James A. Klein, Jr., Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 20-F of Adherex Technologies Inc. (the "Company");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   (b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
   (c) Disclosed in this annual report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 30, 2006

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

Exhibit 13

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Adherex Technologies Inc. (the "Company") on Form 20-F for the period ended December 31, 2005, (the "Report"), each of the undersigned, William P. Peters, Chairman and Chief Executive Officer of the Company, and James A. Klein, Jr., Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 30, 2006

By: /s/ William P. Peters
William P. Peters
Chairman and Chief Executive Officer

Date: March 30, 2006

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

Exhibit 14

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-126648 and 333-122334) of Adherex Technologies Inc. of our report dated February 10, 2006 relating to the financial statements which appear in this Annual Report on Form 20-F.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Raleigh, North Carolina
March 30, 2006