VIREXX MEDICAL CORP
Form 20-F/A
December 16, 2005

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

FORM 20-F/A

(Mark One)

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

For the fiscal year ended December 31, 2004 and the nine month interim period ended September 30, 2005

OR

o **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

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

Commission file number: 1-32608

ViRexx Medical Corp.
(Exact name of Registrant as specified in its charter)

ViRexx Medical Corp.
(Translation of Registrant's name into English)

Alberta, Canada
(Jurisdiction of incorporation or organisation)

8223 Roper Road, Edmonton, Alberta, Canada T6E 6S4
(Address of principal executive offices)

Copies to:

Bruce D. Hirsche, Q.C.
Parlee McLaws LLP
1500, Manulife Place
10801 - 108 Street
Edmonton, Alberta, Canada T5J 4K1
(780) 423-8540

Joseph P. Galda
Corsair Advisors, Inc.
497 Delaware Avenue
Buffalo, New York, USA
14202
(716) 882-2157

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

Title of each class	Name of each exchange on which registered
Common Shares, No Par Value	Application has been made to list the Common Shares on The American Stock Exchange

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

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

As of September 30, 2005, there were 58,608,545 outstanding shares in the capital of ViRexx.

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.

o Yes x No

Indicate by check mark which financial statement item the registrant has elected to follow

o Item 17 x Item 18

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FORWARD LOOKING INFORMATION

This Registration Statement Form 20-F (the "Registration Statement" or "Form 20-F") contains "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. A holder of shares ("Shareholders") can identify these forward looking statements when they see us using words such as "expect", "anticipate", "estimate", "believe", "may", "potential", "intends", "plans" and other similar expressions or statements that an event or result "will", "may", "could" or "should" be taken, occur or be achieved, or the negative thereof, or other simila statements. These statements are only predictions and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by these forward-looking statements. Important factors that could cause or contribute to such differences include our ability to successfully develop our product candidates and commercialize them into saleable products, the introduction of competing products, the difficulty of predicting Food and Drug Administration ("FDA"), European Medicines Agency ("EMEA") and other regulatory authority approvals, the regulatory environment and changes in the health policies and structures of various countries, our ability to successfully identify, consummate and integrate acquisitions, our potential exposure to candidates, product liability claims, our dependence on patent and other protections for our product candidates, fluctuations in currency, exchange and interest rates and operating results and other risks and uncertainties described under "*Item 3 - Key Information - Risk Factors*" and elsewhere in this Form 20-F.

Forward-looking statements are based on the beliefs, opinions and expectations of our management on the date the statements are made. Although we believe that the forward-looking statements presented in this document are reasonable, we do not guarantee that they accurately or completely predict, reflect or state future results, levels of activity, performance, achievements or occurrence and we do not assume responsibility for failure to do so. Except as required by law we do not undertake to update forward-looking information to reflect actual results, new information, occurrence of future events, or changes in management's beliefs, opinions or expectations. No undue reliance should be placed on such forward-looking statements.

PART I

In this Form 20-F, except where otherwise indicated, all references to the "Corporation," "we," "our" and "ViRexx" refer to ViRexx Medical Corp., its subsidiaries, and where the context requires, its predecessors. References to "dollars" as "CDN$" or "$" are to Canadian dollars and references to "US$" are to United States dollars.

Item 1. Identity of Directors, Senior Management and Advisors

The names, business address and functions of ViRexx's directors and senior management are stated in the following table:

Names	Business Address	Function to the Corporation
Dr. Antoine A. Noujaim	8223 Roper Road Edmonton, Alberta T6E 6S4 Canada	Director
Dr. Lorne J. Tyrrell	8223 Roper Road Edmonton, Alberta T6E 6S4 Canada	Chief Executive Officer, Chief Scientific Officer and Director
Jacques R. Lapointe	7774 Tenth Sideroad Milton, Ontario L9T 4Y9 Canada	Director
Bruce D. Brydon	66 Suffolk Road Salt Spring Island British Columbia V8K 1L8 Canada	Director
Thomas E. Brown	324 Osland Place Edmonton, Alberta T6R 1Z9 Canada	Director
Dr. Jean Claude Gonneau	A Farnell Mews London England SW5 9DL	Director
Douglas Gilpin, CA	175 Wolf Willow Crescent Edmonton, Alberta T5T 1T3 Canada	Acting Chairman and Director
Macaraig (Marc) Canton	8223 Roper Road Edmonton, Alberta T6E 6S4 Canada	President and Chief Operating Officer and Acting Chief Financial Officer
Michael W. Stewart	8223 Roper Road Edmonton, Alberta T6E 6S4 Canada	Vice President, Operations, Oncology
Dr. Rajan George	8223 Roper Road Edmonton, Alberta T6E 6S4 Canada	Vice President, Research & Development, Infectious Diseases
Dr. Andrew Stevens	8223 Roper Road Edmonton, Alberta T6E 6S4 Canada	Vice President, Regulatory Affairs
Dr. Irwin Griffith	8223 Roper Road Edmonton, Alberta T6E 6S4 Canada	Vice President, Drug Development, Infectious Disease

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The Canadian legal advisor of ViRexx is Parlee McLaws llp, located at 1500 Manulife Place, 10180 - 101 Street, Edmonton, Alberta, Canada, T5J 4K1. As to matters arising under the United States Federal securities laws ViRexx is being advised by Corsair Advisors Inc., 497 Delaware Avenue, Buffalo, New York, of the United States, 14202. The auditor of ViRexx for the preceding three years is PricewaterhouseCoopers LLP, Chartered Accountants, Suite 1501 TD Tower, 10088 - 102 Avenue, Edmonton, Alberta, Canada, T5J 3N5.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected financial data

The selected consolidated financial data presented below is derived from the audited annual financial statements for the years ended December 31, 2004, December 31, 2003, December 31, 2002, and December 31, 2001, the unaudited annual financial statements for the year ended December 31, 2000, and the unaudited financial statements for the periods ended September 30, 2005 and September 30, 2004.

The selected financial data should be read in conjunction with the financial statements and other financial information included elsewhere in this Registration Statement.

We prepared our Consolidated Financial Statements in accordance with Canadian General Accepted Accounting Principles (“GAAP”). GAAP differs in certain material respects from United States Generally Accepted Accounting Principles (“U.S. GAAP”). For discussion of the principal differences between Canadian GAAP and U.S. GAAP as they pertain to us, see Note 16 to our audited Consolidated Financial Statements, included elsewhere in this Form 20-F. Note 16 to our Consolidated Financial Statements also provides a reconciliation of our Consolidated Financial Statements to United States Generally Accepted Accounting Principles.

Selected Canadian GAAP Financial Data

(In thousands, except per share data)

	Nine months ended September 30,		Years ended December 31,				
	2005 (Unaudited)	**2004 (Unaudited)**	**2004(1)**	**2003(1)**	**2002(1)**	**2001(1)**	**2000 (Unaudited)**
Revenues	-	-	-	-	-	-	-
Net (loss)	(5,717)	(2,306)	(3,658)	(1,384)	(1,260)	(1,012)	(177)
Net (loss) per share from continuing operations (basic and fully diluted)	(0.10)	(0.09)	(0.14)	(0.15)	(0.14)		(5.21)
Weighted average no. shares outstanding	54,877	26,420	25,268	9,129	8,763		34
Working capital	7,985	7,448	8,837	1,695	281	35	5
Total assets	41,956	8,759	45,722	3,742	1,093	757	126
Long-term liabilities	4,808	-	6,750	35	657	193	195
Shareholders' Equity	36,314	8,390	37,191	2,095	(56)	102	(177)

(1) Derived form the audited financial statements for the year then ended

Selected U.S GAAP Financial Data

(In thousands, except per share data)

	Nine months ended September 30,		Years ended December 31,				
	2005 (Unaudited)	**2004 (Unaudited)**	**2004(1)**	**2003(1)**	**2002(1)**	**2001(1)**	**2000 (Unaudited)**
Revenues	-		-	-	-	-	-
Net (loss)	(5,663)	(2,306)	(31,217)	(2,191)	(1,390)	(1,088)	(177)
Net (loss) per share (basic and fully diluted)	(0.10)	(0.05)	(1.24)	(0.24)	(0.16)		(5.21)
Weighted average no. shares outstanding	54,877	26,420	25,268	9,129	8,763		34
Working capital	7,962	7,389	8,778	1,636	281	35	5
Total assets	9,381	8,516	11,152	3,480	904	660	16
Long-term	-	-	-	35	746	193	195

liabilities							
Shareholders' Equity (Deficiency)	8,524	7,845	9,311	1,774	(245)	6	(187)

(1) Derived form the audited financial statements for the year then ended

Currency and Exchange Rates

The following table sets out the exchange rates for US dollars expressed in terms of one Canadian dollar in effect at the end of the following periods, and the average exchange rates (based on the average of the exchange rates on the last day of each month in such periods);

	US Dollars Per One Canadian Dollar Year Ended December 31				
	2004	**2003**	**2002**	**2001**	**2000**
End of period	0.8319	0.7713	0.6339	0.6275	0.6666
Average for the period	0.7685	0.7158	0.6369	0.6461	0.6740

The following table sets out the high and low exchange rates for US dollars expressed in terms of one Canadian dollar in effect at the end of the following periods:

	US Dollars per One Canadian Dollar						
	April 2005	**May 2005**	**June 2005**	**July 2005**	**August 2005**	**September 2005**	**October 2005**
High for the month	0.8232	0.8083	0.8159	0.8298	0.8411	0.8612	0.8755
Low for the month	0.7956	0.7872	0.7951	0.8044	0.8295	0.8412	0.8412

Exchange rates are based upon the noon buying rate in New York City for cable transfers in foreign currencies, as certified for customs purposes by the Federal Reserve Bank of New York. The noon rate of exchange on October 31, 2005 as reported by the United States Federal Reserve Bank of New York for the conversion of Canadian dollars into United States dollars was CDN$1.00 = US$0.8204.

B. ***Capitalization and indebtedness***

Common Shares

We are authorized to issue an unlimited number of common shares. As of September 30, 2005, we had 58,608,545 common shares outstanding. A summary of transactions during the period ended September 30, 2005 is outlined below:

	Common shares	
	#	$
Balance - December 31, 2004	53,276,477	41,754,983
Issuance of common shares for cash	4,134,675	3,018,651
Conversion of Debentures	561,100	591,281
Exercise of stock options	150,218	159,397
Exercise of warrants	2,066,875	1,877,481
Share issuance costs	-	(326,591)
Repurchased	(1,580,800)	(1,259,560)
Balance - September 30, 2005	**58,608,545**	**45,815,642**

All cash proceeds from the issuance of common shares are used for general working capital purposes.

Normal Course Issuer Bid

On December 21, 2004, we received approval for a Normal Course Issuer Bid allowing ViRexx to repurchase up to 2,663,823 common shares during the period beginning December 23, 2004 to December 22, 2005, at the market price at the time of purchase. We repurchased 1,580,800 common shares at a weighted average price of $1.09 per share for the period January 1, 2005 to September 30, 2005, which resulted in a charge of $1,259,560 to share capital and a charge of $458,662 to the deficit. (*See Item 16E*)

Stock Options

Our stock option plan permits the issuance of stock options equivalent to 8,256,000 common shares. As at September 30, 2005, we had granted 6,462,386 stock options of which 6,120,000 were outstanding and 5,310,500 were exercisable. The expiry date of outstanding stock options range from December 16, 2005 to April 13, 2015.

A summary of transactions during the period ending September 30, 2005 is outlined below:

	Stock Options	Weighted exercise price
	#	$
Balance - December 31, 2004	6,369,168	0.84
Granted	80,000	1.42
Expired	(178,750)	3.90
Exercised	(150,218)	0.82
Balance - September 30, 2005	**6,120,200**	**0.75**

On February 1, 2005, we granted 300,000 stock options as an inducement to an individual to join ViRexx as an officer. The options are exercisable at $1.17 per share and expire on February 1, 2015. These options were not issued under the Plan. One-third of these options vested immediately and the remaining options will vest over a period of two years.

Warrants

As at September 30, 2005, we had 12,935,519 warrants outstanding at a weighted average price of $1.10. The expiry date of outstanding warrants range from October 14, 2005 to September 9, 2007. A summary of transactions during the period is outlined below:

	Warrants	Weighted exercise price
	#	$
Balance - December 31, 2004	12,543,095	1.06
Granted	2,459,299	1.20
Exercised	(2,066,875)	0.85
Balance - September 30, 2005	**12,935,519**	**1.10**

Convertible Debentures

	September 30, 2005	December 31, 2004
	$	$
United States dollar convertible debentures	—	502,215
Canadian dollar convertible debentures	175,000	450,000
Accrued interest	82,120	144,009
Equity component	(22,990)	(59,118)
Balance	**234,130**	**1,037,106**

United States dollar convertible debenture

On August 15, 2002, AltaRex Medical Corp. ("AltaRex") issued a convertible debenture to United Therapeutics in exchange for proceeds of US$433,310. On the acquisition of AltaRex, this debenture was determined to have a fair value of $511,687 (US$417,261). OvaRex patents and technology have been pledged as collateral for the debenture. Interest is payable on the debenture quarterly and accrues at 6% per annum. As at September 30, 2005, the carrying amount of the convertible debenture reflecting current exchange rates is nil (unaudited) (December 31, 2004 - $502,215). On August 23, 2005, principal and unpaid interest on the debenture was converted into common shares of ViRexx at a price of Cdn $1.07 per share.

Canadian dollar convertible debenture

On September 20, 2002, we issued convertible debentures in the amount of $685,000 bearing interest at 12% per annum, accrued monthly, payable September 20, 2005. A specific charge and secured interest against T-ACT™' Technology patent was pledged as collateral for the debenture. The convertible debentures were accounted for in accordance with their substance and presented in the financial statements in their component parts, measured at their respective fair values at the time of issue. The debt component was calculated as the present value of the required interest and principal payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible debt at the time the debentures were issued. The difference between the debt component and the face value of the debentures, representing the value of the conversion feature and options, was classified as equity.

In 2003, $235,000 of these debentures were converted to common shares leaving a principal balance of $450,000. On August 6, 2003, a director, officer and significant shareholder of ViRexx converted $175,000 principal amount of the convertible debentures plus accrued interest of $17,333 into 521,233 ViRexx Research shares on the following conversion basis. The principal amount of $175,000 was converted at $0.369 per ViRexx Research share for a total of 480,160 ViRexx Research shares and accrued interest of $17,333 was converted at $0.422 per ViRexx Research share for a total of 41,073 ViRexx Research shares.

On December 31, 2003 an additional principal amount of $60,000 plus accrued interest of $8,944 was converted at $0.422 per ViRexx Research share for a total of 163,415 ViRexx Research shares.

During the year ended December 31, 2004, we offered to redeem the remaining debentures and deposited $659,931 into trust to satisfy redemption requirements and related costs. As a result, the debentures were classified as a current liability commencing December 31, 2003.

During the nine-month period ended September 30, 2005, the Company redeemed $225,000 of principal plus accrued interest of $99,625 and converted $50,000 plus accrued interest of $22,010 into 75,800 common shares of the Company at a price of CA$0.95 per share (unaudited). As at September 30, 2005, the remaining debenture principal balance was $175,000 (unaudited). The principal amount of the debt and all accrued interest have now been paid in full and this debt is extinguished.

C. ***Reasons for the offer and use of proceeds***

Not Applicable.

D. ***Risk factors***

An investment in our common shares involves a high degree of risk and should be considered speculative. You should carefully consider the risks and uncertainties described below, as well as other information contained in this registration statement, including under Item 5: "Operating and Financial Review and Prospects" and in our financial statements and accompanying notes, before making any investment. If any of the following risks occur, our business, financial condition, and results of operations could be seriously harmed and you could lose all or part of your investment.

RISK RELATED TO OUR FINANCIAL CONDITION

WE MUST RAISE MONEY FROM INVESTORS TO FUND OUR OPERATIONS. IF WE ARE UNABLE TO FUND OUR OPERATIONS, WE WILL CEASE DOING BUSINESS.

As at September 30, 2005, we had cash reserves, consisting of cash and cash equivalents, of approximately $8,319,266. In 2004, we incurred a net loss of $3,657,760, and in 2003 we incurred a net loss of $1,383,562. In the first nine months of 2005 we incurred a net loss of $5,716,701. We have just completed a Private Placement of $4,000,000 (CAD)

Without additional funding, we will have inadequate funds to continue our existing corporate, administrative, and operational functions beyond the second quarter of 2006. We anticipate raising another $15,000,000 to the end of the second quarter of 2006. We also have commitments under our University of Alberta license agreement to make milestone payments of $250,000 when we enter Phase III clinical trials on each of the product candidates derived from the intellectual property licensed under that Agreement. We anticipate that we will need to raise approximately another $12,000,000 between the fourth quarter of 2006 and the second quarter of 2007 to bring us forward to our first commercial income stream beginning in the third quarter of 2008. The average monthly amount of cash that we are using, and expect to use over the next 12-18 months for all of our operations, is approximately $800,000. For a further discussion of our liquidity and capital resources, you should also refer to Item 5: "Operating and Financial Review and Prospects" in this registration statement. We expect to continue to seek additional sources of funding to finance operations into the future, through public or private equity or debt financings, collaborative arrangements with pharmaceutical companies and/or from other sources. We cannot assure you that additional financing will be available or, even if it is available, that it will be available on terms acceptable to us.

WE HAVE NOT DERIVED ANY REVENUE TO DATE FROM THE COMMERCIAL SALE OF PRODUCT CANDIDATES, HAVE NEVER HAD ANY REVENUES FROM COMMERCIAL SALES AND HAVE RELIED ON EQUITY AND DEBT FINANCINGS TO SUPPORT OUR OPERATIONS.

We have not derived any revenue to date from the commercial sale of product candidates and have no product candidates for sale. Our future profitability will depend upon our ability to bring product candidates to market in a timely manner, obtain regulatory approvals and enter into suitable licensing or partnering arrangements to commercialize our product candidates. We have relied solely on equity and debt financing and government grants to support our operations. We have not commercially introduced any product candidates and the product candidates are in varying stages of development and testing. Our ability to sell an approved commercial product will depend upon it’s ability to develop products that are safe, effective and commercially viable, to obtain regulatory approval for the manufacture and sales of its product candidates and to license or otherwise market its product candidates successfully. We may never commercialize sales of an approved product and will have relied on equity and debt financings to support ongoing operations.

WE HAVE A HISTORY OF OPERATING LOSSES AND WE EXPECT TO INCUR FUTURE LOSSES. IF WE ARE UNABLE TO ACHIEVE SIGNIFICANT REVENUES IN THE FUTURE, WE WILL CEASE DOING BUSINESS.

Since our inception, we have incurred significant losses each year. Our accumulated deficit at September 30, 2005 since inception is $14,425,782. We expect to incur significant operating losses as we continue our product candidate research and development and continue our clinical trials. We will need to generate significant revenues in order to achieve and maintain profitability. Our ability to generate revenue in the future is dependent, in large part, on completing product development, obtaining regulatory approvals, and commercializing, or entering into agreements with third parties to commercialize, our product candidates. We cannot assure you that we will ever successfully commercialize or achieve revenues from sales of our therapeutic product candidates if they are successfully developed or that we will ever achieve or maintain profitability. Even if we do achieve profitability, we may not be able to sustain or increase profitability.

Until we receive regulatory approval for sales of product candidates incorporating our licensed and/or patented technologies, we cannot sell our product candidates and will not have revenues from sales. The research, development, production, and marketing of new products require the application of considerable technical and financial resources. However, any revenues generated from such product candidates, assuming they are successfully developed, marketed, and sold, may not be realized for a number of years.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

WE ARE IN THE EARLY STAGES OF PRODUCT CANDIDATE DEVELOPMENT. OUR PRODUCT CANDIDATES MAY NOT BE EFFECTIVE AT A LEVEL SUFFICIENT TO SUPPORT A PROFITABLE BUSINESS VENTURE. IF THEY ARE NOT, WE WILL BE UNABLE TO CREATE MARKETABLE PRODUCT CANDIDATES AND WE WILL HAVE TO CEASE OPERATIONS.

Our product candidates are in the preliminary development stage, have not been approved for marketing by any regulatory authority and cannot be commercially distributed in any markets until such approval is obtained. We cannot assure you that our monoclonal antibody therapies, Chimigen' vaccines and tumor starvation therapies will be effective at a level sufficient to support a profitable business venture. The science on which our technologies are based may also fail due to flaws or inaccuracies in the data, or because the data are not predictive of future results. The science upon which our business is based may prove to be totally or partially incorrect. Because our science may be flawed or incorrect, we may never be able to create a marketable product. If we are unable to do so, we will not generate revenues, we will have to cease operations, and investors risk losing their entire investment.

In addition, it takes a significant period of time for new vaccines and therapeutic drugs to be developed, to obtain the necessary regulatory approvals to permit sales, to establish appropriate distribution channels and market acceptance, and to obtain insurer reimbursement approval. This time period is generally not less than 10 years. None of our therapeutic product candidates has been commercialized and completion of the commercialization process for any of our product candidates will require significant investments of time and funds. We cannot predict either the total amount of funds that will be required, or assure you that we will be successful in obtaining the necessary funds. It is also not possible for us to predict the time required to complete the regulatory process or if there will be sufficient market demand at such time. If any of our product candidates are approved, we cannot give assurances that it will be possible to produce them in commercial quantities at reasonable cost, successfully market them, or whether any investment made by us in the commercialization of any product candidates would be recovered through sales, license fees, or related royalties. Furthermore, the time it takes for product candidates to reach market acceptance exposes us to significant additional risks, including the development of competing products, loss of investor interest, changing market needs, changes in personnel, and regulatory changes.

Since the process of discovering and developing cancer therapies and therapic hepatitis B and hepatitis C vaccines is our core business, we anticipate that we will remain engaged in research and development for the foreseeable future. As one or two product candidates advance to commercialization, we expect that other potential products will replace them as research and development candidates. We estimate that OvaRexÒ MAb is a minimum of two years away from approval and commercialization and Occlusin™' Injection is a minimum of fours years away from approval and commercialization, HepaVaxx is a minimum of 6 years away from approval and commercialization, although these processes could take much longer.

WE RELY ON, AND INTEND IN THE FUTURE TO CONTINUE TO RELY ON, LICENSES FROM THIRD PARTIES AND ANY BREACH OR TERMINATION OF THESE LICENSE ARRANGEMENTS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION, AND RESULTS OF OPERATIONS.

We cannot assure you that we will obtain any additional required licenses, that our existing licenses or new licenses, if obtained, will not terminate, or that they will be renewed. The failure to obtain, the termination of, or the failure to renew any of these licenses would have a material adverse effect on our pre-clinical and clinical programs and may cause us to suspend or cease our operations. In addition, we cannot assure you that these licenses will remain in good standing or that the technology we have licensed under these agreements has been adequately protected or is free from claims of infringement of the intellectual property rights of third parties.

Pursuant to the terms of the licenses and any agreements we may enter into in the future, we are and could be obligated to exercise diligence in bringing potential products to market and to make license payments and certain potential milestone payments that, in some instances, could be substantial. We are obligated and may in the future be obligated, to make royalty payments on the sales, if any, of product candidates resulting from licensed technology and, in some instances, may be responsible for the costs of filing and prosecuting patent applications. Because we require additional funding, we may not be able to make payments under current or future license agreements, which may result in our breaching the terms of any such license agreements. Any breach or termination of any license could have a material adverse effect on our business, financial condition, and results of operations.

OUR FAILURE TO PROTECT OUR INTELLECTUAL PROPERTY OR OUR INFRINGEMENT ON THE PROPERTY RIGHTS OF OTHERS MAY IMPEDE OUR ABILITY TO OPERATE FREELY

We rely significantly upon proprietary technology and protect our intellectual property through patents, copyrights, trademarks and contractual agreements as appropriate. We own or exclusively license 6 issued U.S. patents having expiration dates ranging from 2016 to 2021. As we develop our product candidates, we may discover more about it which will require additional patent prosecution. Thus, we continually evaluate our technology to determine whether to make further patent filings.

To the extent aspects of our technology may be unpatentable, we may decide to maintain such technology as trade secrets or we may protect such unpatented technology by contractual agreements. Our unpatented technology or similar technology could be independently developed by others. In addition, the contractual agreements by which we protect our unpatented technology and trade secrets may be breached. If technology similar to ours is independently developed or our contractual agreements are breached, our technology will be less valuable and our business will be harmed.

There is always a risk that issued patents may be subsequently invalidated, either in whole or in part, and this could diminish or extinguish our patent protection for key elements of our technology. We are not involved in any such litigation or proceedings, nor are we aware of any basis for such litigation or proceedings. We cannot be certain as to the scope of patent protection, if any, which may be granted on our patent applications.

Our potential products or business activities could be determined to infringe intellectual property rights of third parties despite our issued patents. Any claims against us or any purchaser or user of our potential products asserting that such product or process infringes intellectual property rights of third parties, if determined adversely to us, could have a material effect on our business, financial condition or future operations. Any asserted claims of infringement, with or without merit, could be time consuming, result in costly litigation, divert the efforts of our technical and management personnel, or require us to enter into royalty or licensing agreements, any of which could materially adversely affect our operating results. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us, if at all. In the event a claim is successful against us and we cannot obtain a license to the relevant technology on acceptable terms, license a substitute technology or redesign our potential products to avoid infringement, our business, financial condition and operating results would be materially adversely affected.

OUR BUSINESS IS SUBJECT TO SIGNIFICANT GOVERNMENT REGULATION AND FAILURE TO ACHIEVE REGULATORY APPROVAL OF OUR DRUG CANDIDATES WOULD SEVERELY HARM OUR BUSINESS.

The FDA regulates the development, testing, manufacture, record-keeping, labeling, distribution, and promotion of pharmaceutical products in the United States pursuant to the Food, Drug, and Cosmetic Act and related regulations. We must receive premarket approval by the FDA prior to commercial sale in the U.S. of any of our product candidates. Similar regulations are enforced by Health Canada and by other regulatory agencies in each jurisdiction in which we seek to do business. The regulatory review process is lengthy and expensive, and the outcome of the approval process is uncertain. Before receiving approval we must acquire and submit extensive preclinical and clinical data and supporting information for each indication to establish the safety and efficacy of our drug candidates. In addition, we must show that we can produce our drug candidates consistently at quality levels suitable for administration in humans in accordance with a complex set of regulations known as current Good Manufacturing Practices (cGMP's). Premarket approval is a lengthy and expensive process and takes several years. Future legislation or changes in FDA policy may change during the period of potential product development and clinical trials. We may not be able to obtain FDA approval or approval from other regulatory agencies for any commercial sale of any drug candidate. We may encounter delays or rejections in the regulatory approval process at any time. Even if approval is obtained, the FDA may determine that additional clinical trials are required after marketing has begun. Except for any potential licensing or marketing arrangements with other pharmaceutical or biotechnology companies, we will not generate any revenues in connection with our drug candidates unless and until we obtain clearance from the FDA, Health Canada or comparable agencies in each market to commercialize our product candidates. Given the uncertainty, extensive time, and financial expenditures involved in moving a drug through the regulatory and clinical trial process in Europe, Canada, the United States, and elsewhere, we may never be able to successfully develop safe, commercially viable products. If we are unable to do so, we may have to cease operations.

WE ARE DEPENDENT ON THE SUCCESSFUL OUTCOME OF PRECLINICAL TESTING AND CLINICAL TRIALS.

None of our product candidates are currently approved for sale by the FDA, by Health Canada or by any other regulatory agency in the world, and they may never receive approval for sale or become commercially viable. Before obtaining regulatory approval for sale, each of our product candidates must be subjected to extensive preclinical and clinical testing to demonstrate safety and efficacy for each proposed indication for human use. Our success will depend on the successful outcome of our preclinical testing and clinical trials.

There are multiple risk factors associated with conducting clinical trials of our investigational drug and device product candidates. There may be unforeseen delays in identifying and reaching agreement on acceptable terms with institutional review boards of clinical trial providers with respect to proposed clinic study protocols. There may also be delays in reaching satisfactory financial agreements with prospective clinical trial sites and the investigators themselves.

There may be regulatory delays of clinical trials related to obtaining U.S. Food and Drug Administration ("FDA"), Health Canada, European Medicines Agency ("EMEA"), or other regulatory agency clearance to begin patient treatment in a clinical trial. A common issue in conducting clinical trials are the delays encountered in the enrollment of patients, which may significantly prolong the length of time required to conduct clinical studies.

A prime risk factor of clinical trials is that the study outcome may reveal that the product candidate does not demonstrate the anticipated level of effectiveness in the target patient population, which will affect the approvability of the potential product by regulatory agencies. Similarly, clinical trials may show that an investigational product causes adverse events in the patients that are unacceptable in nature or frequency in the intended patient population to be treated with the drug.

Our most advanced product candidate, OvaRexÒ MAb is in Phase III clinical testing in the United States, and our second most advanced product candidate Occlusin' Injection is in Phase I clinical trials. Historically, the results from preclinical testing and from early clinical trials often have not been predictive of results obtained in later clinical trials. Frequently, drugs that have shown promising results in preclinical or early clinical trials subsequently fail to demonstrate sufficient evidence of safety or effectiveness necessary to obtain regulatory approval. Our success will depend on the success of our current clinical trials and subsequent clinical trials that have not yet begun. Moreover, regulatory agencies such as the FDA and Health Canada may impose specific standards on the evaluation of tumor response in individual patients which may differ from those of ViRexx or its clinical advisors. These different standards may lead the regulatory agency to conclude that study subjects receiving any of ViRexx's product candidates have had a more modest clinical response than did ViRexx or its clinical advisors.

In addition to the risks mentioned, there are a number of other difficulties and risks associated with clinical trials. The possibility exists that:

(a) we may discover that our product candidates may cause, alone or in combination with another therapy, unacceptable side effects or are not effective at all;
(b) we may discover that our product candidates, alone or in combination with another therapy, does not exhibit the expected therapeutic results in humans;
(c) results from early trials may not be predictive of results that will be obtained from large-scale, advanced clinical trials as mentioned above;
(d) we or the FDA or other regulatory agencies may suspend the clinical trials of one or more of our product candidates;
(e) patient recruitment may be slower than expected;
(f) patients may drop out of our clinical trials; and
(g) there may be cost overruns.

Although the U.S. FDA has given OvaRexÒ MAb orphan drug status for its use in ovarian cancer, this status does not diminish any of the requirements for market approval. Given the uncertainty surrounding the regulatory and clinical trial process, we may not be able to develop safety, efficacy or manufacturing data necessary for approval of our product candidates. In addition, even if we receive approval, such approval may be limited in scope and affect the commercial viability of such product candidate. If we are unable to successfully obtain approval to commercialize any product candidate, this would materially harm our business, impair our ability to generate revenues and adversely impact our stock price.

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DELAYS IN CLINICAL TRIALS WILL CAUSE US TO INCUR ADDITIONAL COSTS, WHICH COULD JEOPARDIZE THE TRIALS AND ADVERSELY AFFECT OUR LIQUIDITY AND FINANCIAL RESULTS.

Due to the high costs of clinical trials, a delay in our trials, for any reason, will require us to spend additional funds to keep our product candidates moving through the regulatory process. If we do not have or cannot raise the necessary additional funds, the testing of our product candidates could be cancelled. If we are required to spend additional funds, it will require us to spend funds that could have been used for other purposes and could adversely affect our liquidity and financial results.

WE RELY ON CLINICAL INVESTIGATORS AND CONTRACT RESEARCH ORGANIZATIONS TO CONDUCT OUR CLINICAL TRIALS.

We rely, in part, on independent clinical investigators and contract research organizations to conduct our clinical trials. Contract research organizations also assist us in the collection and analysis of the data generated from these clinical trials. These investigators and contract research organizations are not our employees and we cannot control, other than by contract, the amount of resources, including time, that they devote to our product candidates and our clinical trials. If independent investigators fail to devote sufficient resources to our clinical trials, or if their performance is substandard, these factors may delay any possible approval and commercialization of our product candidates and could harm our chances of obtaining regulatory approval. Further, most national regulatory agencies require that we comply with standards, commonly referred to as "good clinical practice", for conducting, recording, and reporting clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity, and confidentiality of trial subjects are protected. If our independent clinical investigators and contract research organizations fail to comply with good clinical practice, the results of our clinical trials could be called into question and the clinical development of our product candidates could be delayed or halted. The failure of clinical investigators and contract research organizations to meet their obligations to us or comply with good clinical practice procedures could adversely affect the clinical development of our product candidates, and have a material adverse effect on our business, financial condition, and results of operations.

WE ARE DEPENDENT ON STRATEGIC PARTNERS AS PART OF OUR PRODUCT CANDIDATE DEVELOPMENT STRATEGY, AND WE WOULD BE NEGATIVELY AFFECTED IF WE ARE NOT ABLE TO INITIATE OR MAINTAIN THOSE RELATIONSHIPS.

If any of our product candidates in addition to OvaRexÒ MAb advance to, and subsequently successfully complete, Phase II clinical trials, we intend to either finance further clinical development ourselves, or enter into strategic partnerships whereby third parties will finance further clinical development, such as Phase III clinical trials. We cannot assure you, however, that we will be able to find partners and establish such relationships on favorable terms, if at all, or that any such future arrangements will be successful.

Should any partner fail to develop or commercialize successfully any product candidates to which it has rights, our business, financial condition, and results of operations may be adversely affected. The failure of any collaborative partner to continue funding any particular program, for any reason, could delay or halt the development or commercialization of any potential product arising out of a particular program. In addition, we cannot assure you that any of our future partners would not pursue alternative technologies or develop alternative product candidates either on their own or in collaboration with others, including our competitors, as a means for developing treatments for the diseases targeted by our programs.

THERE ARE RISKS INHERENT IN RELYING ON A SOLE SOURCE SUPPLIER FOR SOME OF OUR MATERIALS.

We are reliant upon the supply of raw materials from key suppliers in the manufacture of our product candidates. These key suppliers currently meet our manufacturing requirements but they could default in the supply of the raw material for several reasons, including insolvency, lack of regulatory compliance, inability to manufacture sufficient quantities of the raw material, fire, and natural disasters. Although we have made every effort to identify alternate source suppliers of these raw materials, there is no guarantee that supply agreements would be established with these suppliers if the primary supplier defaults in the supply of raw material. If we are unable to procure the requisite raw materials for the manufacture of product candidates, then we might not be able to manufacture sufficient quantities of the drug candidate for pre-clinical and clinical testing purposes.

WE RELY ON OUR STRATEGIC RELATIONSHIP WITH UNITED THERAPEUTICS

In April 2002, our subsidiary, AltaRex, entered into an Exclusive License Agreement with United Therapeutics Corporation ("United Therapeutics") for the development and commercialization of OvaRex® MAb and four other monoclonal antibodies worldwide, with the major exception of the member nations of the European Union and certain other countries. In August of 2003, the Exclusive License Agreement was extended to include Germany. Under the Exclusive License Agreement, United Therapeutics is responsible for the development of our intellectual property with respect to the five antibodies, including the commercialization of the five antibodies in the licensed territory. In particular, United Therapeutics has agreed to pay us certain amounts based upon the achievement of specified milestones together with royalties based upon sales of potential products utilizing or incorporating the licensed technology sold in the licensed territory. If United Therapeutics does not devote the resources necessary or does not advance the clinical development of the potential products, particularly OvaRex® MAb, we will be materially adversely affected.

WE RELY ON COLLABORATIVE ARRANGEMENTS FOR MANUFACTURING OUR CLINICAL TRIAL MATERIAL AND PRODUCT CANDIDATES

We are reliant upon United Therapeutics for all manufacturing responsibilities. We can make no assurance that delays will not be encountered in the remaining product candidate development and manufacturing activities required for regulatory filings for OvaRex® MAb, or that United Therapeutics' manufacturing decisions would be appropriate for ViRexx and its other collaborators. Also, if long-term arrangements for the production of OvaRex® MAb and other antibodies cannot be entered into, we may experience delays in the development and commercialization of its product candidates. In addition, if these contract suppliers fail to perform under the terms of the agreement, we may incur significant costs.

Scaling-up production and producing multiple consistency lots of cell culture-derived materials will enable us and United Therapeutics to further pursue regulatory approval and commercialization of OvaRex® MAb. Such regulatory approval and commercialization is dependent upon our and United Therapeutics' ability to achieve such improvements in production.

WE ARE REQUIRED TO COMPLY WITH REGULATIONS WHICH ARE ADMINISTERED BY REGULATORY AUTHORITIES IN CANADA, UNITED STATES AND EUROPE.

Regulations imposed by governmental drug regulatory agencies in the U.S., Canada, and other countries are a significant factor in the conduct of the research, development, manufacturing and eventual marketing activities of our candidate products. In the U.S., drug and device products are subject to regulation by the FDA. In Canada, these activities are regulated by Health Canada, and in Europe by EMEA. Regulators in the U.S., Canada and Europe follow much the same drug and device approval process. Companies must establish that their candidate products are safe and effective and that their manufacture complies with GMP before they are allowed to market a new drug or device product in that regulatory jurisdiction.

Even if regulatory approval to market a pharmaceutical product candidate is obtained from FDA, Health Canada or EMEA, the company may have to expend substantial time and resources to obtain similar regulatory approval to sell the product candidate in other regulatory jurisdictions. This could limit the market opportunity for the product candidate until regulatory approval is obtained in the other markets and this would adversely affect the operating results of the company.

EVEN IF OUR PRODUCT CANDIDATES RECEIVE ALL OF THE REQUIRED REGULATORY APPROVALS, WE HAVE NO GUARANTEE OF MARKET ACCEPTANCE OR COMMERCIALIZATION OF THE RESULTING PRODUCT CANDIDATES, WHICH WILL BE DETERMINED BY OUR SALES, MARKETING, AND DISTRIBUTION CAPABILITIES AND THE POSITIONING AND COMPETITIVENESS OF OUR PRODUCT CANDIDATES, COMPARED WITH ANY ALTERNATIVES.

Even if our product candidates receive all necessary regulatory approvals and clearances, they may not gain market acceptance among physicians, patients, healthcare payors, and the medical community. The degree of market acceptance of any product candidate that we may develop will depend on a number of factors, including marketing and distribution support for the product candidates, establishment and demonstration of the cost-effectiveness of the product candidates, and the potential advantage of our product candidates over any alternatives. Even after successful commercialization of one or more product candidates, we may never achieve profitability. We currently do not have any sales, marketing, or distribution capabilities, and therefore must either acquire or internally develop sales, marketing, and distribution capabilities or make arrangements with third parties to perform these services.

If our product candidates demonstrate sufficient clinical benefit to obtain regulatory approval for marketing, we intend to seek third parties as partners to market, sell, and distribute such product candidates. These distribution partners may not promote our product candidates as aggressively as we would like, may not be successful in their sales and distribution efforts, may experience financial difficulty or lack the marketing or financial ability to adequately market our product candidates, or may fail to promote our product candidates altogether. Third party marketers may be involved in the sale of competing products and fail to market our product candidates due to this conflict. In addition, if the profit margins on our product candidate do not favourably compare with other products being marketed by a third party marketer, our product candidates may not be promoted as readily. As in the case of any contractual relationship if either party defaults under the marketing agreement, sales of our product candidates may suffer. If we terminate a marketer of our product candidates, we may not be able to find an immediate replacement. Any of these events would have a material adverse effect on our business, financial condition, and results of operations. These events may also lead us to try to establish our own marketing and sales force. The acquisition or development of a sales and distribution infrastructure would require substantial resources, which may divert the attention of our management and key personnel, and have a negative impact on our potential product development efforts. Moreover, we may not be able to establish in-house sales and distribution capabilities or relationships with third parties.

If successfully developed, our product candidates will compete with a number of drugs and therapies currently manufactured and marketed by major pharmaceutical and other biotechnology companies. These product candidates may also compete with new products currently under development by other pharmaceutical and biotechnology companies, and with products which may cost less than our product candidates or may be more effective than our product candidates. If our product candidates do not achieve significant market acceptance, our business, financial condition, and results of operations will be materially adversely affected.

REIMBURSEMENT PROCEDURES AND FUTURE HEALTHCARE REFORM MEASURES ARE UNCERTAIN AND MAY ADVERSELY IMPACT OUR ABILITY TO SUCCESSFULLY SELL OR LICENSE ANY PHARMACEUTICAL PRODUCT CANDIDATE.

If any of our potential products is approved for commercialization by national regulatory authorities, the extent of sales will depend upon the availability of reimbursement from third-party payors such as Medicare in the United States and similar government health administration authorities in other countries, as well as private health insurers and other organizations. Our ability to successfully sell or license any pharmaceutical product candidate will depend in part on the extent to which government health administration authorities, private health insurers and other organizations will reimburse patients or providers for the costs of any future pharmaceutical product candidates and related treatments. Each jurisdiction has its own regulatory scheme. Significant variation exists as to the reimbursement status of newly approved healthcare products, and we cannot assure you that adequate third party coverage will be available to establish price levels sufficient for us to realize an appropriate return on our investment in developing new product candidates or for existing product candidates. Increasingly, government and other third-party payors are attempting to contain health care costs by limiting both coverage and the level of reimbursement for new therapeutic product candidates. Reimbursement levels may be related to issues of cost-effectiveness, which are evaluated differently in different jurisdictions. Inadequate coverage or reimbursement could adversely affect market acceptance of our product candidates. Recently, the prices of medical products and services have been examined and challenged by third parties and consumers of such products and services. Successful challenges or government reform in this area could negatively affect our profitability.

In the United States, government and other third-party payers have sought to contain healthcare costs by limiting both coverage and the level of reimbursement for new pharmaceutical products approved for marketing by the FDA. In some cases, these payers may place conditions on the use of new products which limit their market penetration or may refuse to provide any coverage for uses of approved products to treat medical conditions even though the FDA has granted marketing approval. Healthcare reform may increase these costs containment efforts. U.S. managed care organizations and government health insurance programs may seek to restrict the use of new products, delay authorization to use new products or limit coverage. New rule making by the Center for Medicare and Medicaid Services could affect drug coverage and payments by Medicare. Internationally, where national healthcare systems are prevalent, little if any funding may be available for new products, and cost containment and cost reduction efforts can be more pronounced than in the United States.

COMPETITIVE PRODUCTS AND TECHNOLOGIES MAY REDUCE DEMAND FOR OUR PRODUCT CANDIDATES AND TECHNOLOGIES.

Our success depends upon maintaining our competitive position in the research, development, and commercialization of products and technologies in our area of expertise. Competition from pharmaceutical, chemical and biotechnology companies, and universities and research institutes is intense and expected to increase. Many of these competitors have substantially greater research and development capabilities, experience in manufacturing, marketing, financial, and managerial resources than we do and represent significant competition for us.

We cannot assure you that developments by others will not render our product candidates or technologies non-competitive or obsolete, or that we will be able to achieve the level of acceptance within the medical community necessary to compete successfully. We are aware of several potential competitors that are at various stages of development or that have commercial sales of products that may address similar cancer indications. The success of our competitors and their products may have a material adverse impact on our business, financial condition, and results of operations.

OUR INDUSTRY IS CHARACTERIZED BY RAPID CHANGE AND A FAILURE BY US TO REACT TO THESE CHANGES COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

The biotechnology industry is characterized by rapid and substantial technological change. Alternative forms of medical treatment may render our technologies or product candidates of lower or no value in the future. Our future success depends on our ability to adapt to this change and keep pace with new technological developments and emerging industry standards, and we cannot assure you that we will be able to do so.

IF WE FAIL TO HIRE OR RETAIN NEEDED PERSONNEL, THE IMPLEMENTATION OF OUR BUSINESS PLAN COULD SLOW AND FUTURE GROWTH COULD SUFFER.

Our success depends in large part upon our ability to attract and retain highly qualified scientific and management personnel. Competition to retain personnel in the biotechnology field from other companies, academic institutions, government entities, and other organizations is intense. We cannot assure you that we will retain our current personnel and will be able to continue to attract qualified personnel, and any failure to do so could slow implementation of our business plan or future growth. To date, however, we have had no difficulties attracting and retaining highly qualified scientific and management personnel. Additionally, none of our scientific or management personnel have indicated that they have plans to retire or leave our company in the foreseeable future except for Dr. Antoine Noujaim who is taking an extended leave of absence due to illness. He has been replaced as CEO by Dr. Lorne Tyrrell. In addition our CFO has resigned and been replaced by Marc Canton as acting CFO. We are actively recruiting another CFO.

THE LOSS OF THE SERVICES OF OUR CHIEF EXECUTIVE/CHIEF SCIENTIFIC OFFICER COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

We are highly dependent on the knowledge and services of our Chief Executive/Chief Scientific Officer. If we were to lose his services, it would be difficult and costly to find a replacement, it would have a severe impact on the implementation of our business plans and our future growth would suffer.

WE ARE RELIANT ON A KEY EMPLOYEE.

Dr. Lorne Tyrrell would be the only person employed by us we would consider a key employee upon whom we are dependent. He occupies the dual roles of Chief Executive Officer and Chief Scientific Offcer. We do not have "key person" insurance with respect to our Chief Executive/Chief Scientific Officer. ViRexx and Dr. Tyrrell have entered into an employment agreement that may be terminated by either party on two months’ written notice without cause or by us without prior notice for reasons of just cause. The term is a continuing term until either party terminates. There are no other members of our management or scientific staff whose departure would have a material effect on our business. We have not had any problems attracting and retaining qualified employees.

WE CONDUCT CERTAIN ELEMENTS OF OUR BUSINESS INTERNATIONALLY, AND THE DECISIONS OF SOVEREIGN GOVERNMENTS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION.

We may conduct certain elements of our business internationally. We are conducting clinical trials in Canada. We intend to, and may conduct clinical trials in other jurisdictions. Sovereign governments, including Canada, may establish laws or regulations that will be deleterious to our interests or that will affect our ability, as a foreign corporation, to obtain access to regulatory agencies in foreign jurisdictions. Governments have also, from time to time, established foreign exchange controls which could have a material adverse effect on our business, financial condition, and results of operations. To date, neither our operations nor our financial condition have been materially impacted due to laws or regulations of sovereign governments.

OUR OPERATING RESULTS MAY BE SUBJECT TO CURRENCY FLUCTUATIONS, AS OUR OPERATIONS ARE BASED LARGELY IN CANADA, WHILE SOME OF OUR EXPENSES ARE IN U.S. DOLLARS OR OTHER FOREIGN CURRENCIES.

Our operations are based in Canada, while some of our expenses, in particular those related to clinical trials, are in U.S. dollars or currencies other than Canadian dollars. As at September 30, 2005, approximately 70% of our payments made in relation to accounts payable were made in Canadian dollars, approximately 30% were made in U.S. dollars. The exchange rates among the Canadian dollar, the U.S. dollar, and other foreign currencies are subject to daily fluctuations in the currency markets and these fluctuations in market exchange rates are expected to continue in the future. We do not engage in currency hedging activities to limit the risks of these fluctuations. We are subject to risks associated with these currency fluctuations which may, from time to time, impact our financial position and results of operations.

OUR INSURANCE MAY NOT BE SUFFICIENT AND WE MAY BE EXPOSED TO LAWSUITS AND OTHER CLAIMS RELATED TO OUR PRODUCT CANDIDATES IN CLINICAL STUDIES AND PRODUCT LIABILITY WHICH COULD INCREASE OUR EXPENSES, HARM OUR REPUTATION, AND KEEP US FROM GROWING OUR BUSINESS.

The sale and use of human therapeutic products, including those product candidates we are developing, involve an inherent risk of product liability claims and adverse publicity. Clinical studies include trials on humans. These studies create a risk of liability for side effects to participants resulting from an adverse reaction to the medications being tested or resulting from negligence or misconduct. While we currently maintain limited insurance related to our ongoing clinical trials, we cannot assure you that this insurance will continue to be available to us on commercially reasonable terms. Any claims might also exceed the amounts of this coverage. If we are unable to obtain our insurance at reasonable rates or otherwise protect ourselves against potential liability proceedings, we may be required to slow down any future development of product candidates or may even be prevented from developing the product candidates at all. Our obligation to pay indemnities or withdraw a product candidate from clinical trials following complaints could have a material adverse effect on our business, financial condition, and results of operations. Claims against us, regardless of their merit or potential outcome, may also result in severe public relations problems that could seriously damage our reputation and business viability.

In addition, certain drug retailers require minimum product liability insurance coverage as a condition of purchasing or accepting products for retail distribution. If any of our product candidates are successfully developed and approved for commercial sale, it is our intention to obtain adequate product liability insurance before the product candidates are marketed. Failure to satisfy these insurance requirements could impede our ability or that of any potential distributors of our product candidates to achieve broad retail distribution of these product candidates, which would have a material adverse effect on our business, financial condition, and results of operations.

WE USE HAZARDOUS MATERIALS THAT ARE HIGHLY REGULATED AND WE MAY BE EXPOSED TO POTENTIAL LIABILITY IN THE EVENT OF AN ACCIDENT INVOLVING THESE MATERIALS; OUR COMPLIANCE WITH ENVIRONMENTAL REGULATIONS COULD BE COSTLY IN THE FUTURE.

Our discovery and development processes involve the controlled use of radioactive and hazardous materials. We are subject to Canadian federal, provincial, and local laws and regulations governing the use, manufacture, storage, handling and disposal of these materials and certain waste products. The risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of an accident of this nature, we could be held liable for any damages that result and any liability of this kind could exceed our resources and, if so, we may have to cease operations. We have general liability insurance which may not be sufficient to cover the cost of any injuries or other damage sustained in respect of these risks. Our coverage limitations under our insurance policies are described above under "OUR INSURANCE MAY NOT BE SUFFICIENT AND WE MAY BE EXPOSED TO LAWSUITS AND OTHER CLAIMS RELATED TO OUR PRODUCT CANDIDATES IN CLINICAL STUDIES AND

PRODUCT LIABILITY WHICH COULD INCREASE OUR EXPENSES, HARM OUR REPUTATION, AND KEEP US FROM GROWING OUR BUSINESS". We cannot assure you that we will not be required to incur significant costs to comply with environmental laws and regulations in the future, or that our operations, business, or assets will not be materially adversely affected by current or future environmental laws or regulations.

IT IS POSSIBLE THAT OUR AIT™, CHIMIGEN™AND T-ACT™TECHNOLOGIES HAVE ADVERSE SIDE EFFECTS OR CAUSE UNDESIRABLE REACTIONS ALTHOUGH WE ARE NOT AWARE OF ANY AT PRESENT.

AIT™ platform

The AIT™ platform is based on the delivery of small amounts of a murine monoclonal antibody to patients with cancer. There is a risk that a patient may develop a human anti-mouse antibody (HAMA) response that could potentially induce an anaphylactic event upon further exposure to a murine antibody. This risk is tempered by preliminary studies with OvaRex® MAb in ovarian cancer patients suggesting that development of a strong HAMA response positively correlated with disease prognosis. (*Expert Rev. Vaccines*. 2002. 1:35-48.)

Chimigen™ platform

Since the Chimigen™ molecule incorporates a portion of a murine antibody, it is possible that patients receiving a Chimigen™ vaccine could develop an anaphylactic adverse event similar to that discussed for the AIT™ platform above. In addition, a Chimigen™ vaccine is designed to induce both humoral and cellular immunities against the viral antigen epitope(s) contained in the vaccine. This immunity can lead to the death of cells infected with the target virus. Patients chronically infected with hepatitis B or C could suffer adverse events associated with the destruction of liver cells following immunization with a Chimigen™ vaccine such as HepaVaxx B or HepaVaxx C. This may be most important in patients that have impaired liver function prior to vaccination and could impact who is eligible to receive a Chimigen™-based therapy.

T-ACT™ platform

T-ACT™ technology is based on the induction of a specific platelet clot at a desired location. A potential risk of this technology is that a clot may break-up and localize at other locations in the body. Another potential risk is that injected material will reach systemic circulation through AV shunts in the target vasculature. This latter risk is mitigated by image analysis using technetium-labeled MAA particle to detect the presence of AV shunts.

All of these risks will be continuously monitored during the conduct of all phases of the clinical trials and should any serious adverse event occur, this event will be reported to the appropriate regulatory agencies for immediate action.

RISKS RELATING TO OUR COMMON SHARES

AS WE ARE A CANADIAN COMPANY, THERE MAY BE LIMITATIONS ON THE ENFORCEMENT OF CERTAIN CIVIL LIABILITIES AND JUDGMENTS OBTAINED IN THE UNITED STATES AGAINST US.

We are amalgamated under the laws of the province of Alberta, Canada and our assets are located outside of the United States. Except for one of our directors, all of our directors and officers, as well as the expert named in this Registration Statement, are residents of Canada, and all or a substantial portion of the assets of these persons are located outside of the United States. As a result, it may not be possible for shareholders effect service of process within the United States upon us or those persons. Furthermore, it may not be possible for shareholders to enforce against us or them in the United States judgments obtained in U.S. courts based upon the civil liability provisions of the U.S. Federal securities laws or other laws of the U.S. Therefore, it may not be possible to enforce those actions against us, most of our directors and officers or the expert named in this Registration Statement. In addition, there is doubt as to the enforceability, in original actions in Canadian courts, of liabilities based upon the U.S. Federal securities laws.

WE HAVE NOT PAID, AND DO NOT INTEND TO PAY, ANY CASH DIVIDENDS ON OUR COMMON SHARES AND THEREFORE OUR SHAREHOLDERS MAY NOT BE ABLE TO RECEIVE A RETURN ON THEIR SHARES UNLESS THEY SELL THEM.

We have never paid dividends on our common shares and we do not expect to have the ability to pay dividends in the foreseeable future. If we generate earnings in the future, we expect that they will be retained to finance further growth. The board of directors of ViRexx will determine if and when dividends should be declared and paid in the future based on our financial position and other factors relevant at the particular time. Until we pay dividends, which we may never do, you will not be able to receive a return on your investment in our common shares unless you sell them, which you may only be able to do at less than the price you paid for them.

THE MARKET PRICE AND TRADING VOLUME OF OUR COMMON SHARES MAY BE VOLATILE.

The market price and trading volume of our common shares on the TSX has experienced significant volatility and will likely continue to do so, which has been or could be in response to numerous factors, including:

(a) quarterly variations in operating results;
(b) market conditions in the industry;
(c) announcements of results of testing, technological innovations or
(d) announcements by our customers or competitors, developments affecting government regulations, developments concerning proprietary rights, litigation, and public concerns as to the safety of our product candidates;
(e) announcements of acquisitions;
(f) general fluctuations in the stock market; and
(g) revenues and results of operations below the expectations of the public market.

Any of these factors could result in a sharp decline in the market price of our common shares.

Since January 1, 2005, the trading price of our common shares has ranged from a low of $0.94 per share to a high of $2.13 per share. Price fluctuations during that period were generally in keeping with general trends in the stock price of biotech companies generally.

During the first nine months of 2005, an average of approximately 4,350 of our shares traded per day on the TSX, although on some trading days our shares have had limited trading volume. In addition, stock markets have occasionally experienced extreme price and volume fluctuations. Historically, the market prices for the securities of biotech companies, including ours, have been particularly affected by these market fluctuations, and these effects have often been unrelated to the operating performance of these particular companies. These broad market fluctuations may cause a decline in the market price of our common shares.

WE MAY NOT MEET THE RELEVANT AMEX LISTING CRITERIA, OR IF WE DO, THERE COULD BE A LIMITED MARKET FOR OUR COMMON SHARES, WHICH COULD REDUCE LIQUIDITY AND INCREASE VOLATILITY IN OUR TRADING PRICE.

We have applied to list our common shares for trading on Amex, but we cannot assure you that our application will be approved. Even in the event we are listed on Amex, we cannot assure you that an active trading market in our common shares in the U.S. will be established, or, if established, sustained. As noted in "The Offer and Price History -Price History", the market price and trading volume of our common shares on the TSX is volatile.

In the event we are listed on Amex, the market price for our common shares on Amex could be subject to wide fluctuations.

In addition, the stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

THE SIGNIFICANT COSTS THAT WE WILL INCUR AS A RESULT OF BEING A PUBLIC COMPANY IN THE UNITED STATES AND CANADA COULD ADVERSELY AFFECT OUR BUSINESS.

We intend to apply to list our common shares on Amex, and if our application is approved, we will incur significant legal, accounting and other expenses as a public company on both Amex and the TSX. These expenses include, among others, costs with respect to preparing securities regulatory filings, costs in connection with compliance with the internal control audit provisions of the Sarbanes-Oxley Act of 2002, costs in connection with other provisions of the Sarbanes-Oxley Act, Amex listing fees and potentially higher director and officer insurance premiums. We currently expect our annual compliance expenses to increase by approximately $100,000 (USD) per year upon listing on Amex. In addition, the requirements we will face by being listed on Amex will impose significant time demands on our management. Although it has not yet been a problem for us, becoming subject to the reporting obligations of the Exchange Act could make it more difficult for us to attract and retain qualified individuals to serve on the board of directors of ViRexx or as executive officers.

AS A FOREIGN PRIVATE ISSUER, WE ARE SUBJECT TO DIFFERENT U.S. SECURITIES LAWS AND RULES THAN A DOMESTIC ISSUER, WHICH MAY, AMONG OTHER THINGS, LIMIT THE INFORMATION AVAILABLE TO HOLDERS OF OUR SECURITIES.

As a foreign private issuer, we are subject to requirements under the Securities Act and the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are different from the requirements applicable to domestic U.S. issuers. For example, our officers, directors, and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions of Section 16 of the Exchange Act and the rules thereunder with respect to their purchases and sales of our common shares. The periodic disclosure required of foreign private issuers is more limited than the periodic disclosure required of U.S. issuers and therefore there may be less publicly available information about us than is regularly published by or about U.S. public companies in the United States. Also, we are not required to comply with Regulation FD, which restricts the selective disclosure of material information.

Item 4. Information on ViRexx

A. History and Development of ViRexx

The legal and commercial name of the Corporation is ViRexx Medical Corp.

ViRexx is a corporation amalgamated under the laws of the Province of Alberta, Canada pursuant to the provisions of the Alberta *Business Corporations Act* ("ABCA"). Our head office is located at 8223 Roper Road, Edmonton, Alberta, Canada, T6E 6S4, and its registered office is located at 1500 Manulife Place, 10180 - 101 Street, Edmonton, Alberta, Canada T5J 4K1. Its common shares are listed and posted for trading on the Toronto Stock Exchange ("TSX") under the symbol "VIR".

ViRexx is the corporation resulting from the amalgamation of ViRexx Research Inc. ("ViRexx Research"), Norac Industries Inc. ("Norac") and Norac Acquisitions Inc. ("NAI"), a wholly owned subsidiary of Norac, under the ABCA on December 23, 2003 (the "ViRexx Amalgamation"). Pursuant to the ViRexx Amalgamation holders of Norac subordinate voting shares (the "Norac A Shares") received 0.2244667 common shares of ViRexx ("ViRexx Shares") for each Norac A Share held and holders of Norac multiple voting shares (the "Norac B Shares") received 0.0000004 ViRexx Shares for each Norac B Share held. The issued and outstanding class A shares of NAI (the "NAI Shares") were cancelled without any repayment of capital in respect of such shares as part of the ViRexx Amalgamation, and therefore Norac, as the sole shareholder of NAI, did not receive any ViRexx Shares. Holders of shares of ViRexx Research received 0.5285974 ViRexx Shares for each share of ViRexx Research held.

Norac was incorporated under the ABCA on September 22, 1986. Norac has been a reporting issuer in the Province of Alberta since October 2, 1986, pursuant to the issuance of a receipt for a final prospectus under the Securities Act (Alberta). The Norac A Shares began trading on the TSXV (formerly, the Canadian Venture Exchange and prior to that the Alberta Stock Exchange) in April 1987 under the symbol "NRC.A" which was subsequently changed to the symbol "NRC.T". On June 23, 2003, trading of Norac's securities was halted upon the announcement of the ViRexx Amalgamation. On August 18, 2003, Norac's listing was moved to the NEX board of the TSX Venture Exchange ("TSXV") as a result of its inactive status, and Norac's symbol was changed to "NRC.H". Norac has been a reporting issuer in the Province of British Columbia since November 26, 1999.

ViRexx Research was the corporation resulting from the amalgamation of Novolytic Corp. and ViRexx Research Inc. ("Original ViRexx") under the ABCA on August 1st, 2002. On August 1st, 2002, immediately prior to the said amalgamation, the shareholders of Original ViRexx exchanged the 1,000,000 issued and outstanding class A common shares of Original ViRexx for 16,746,007 common shares of Novolytic Corp. and as a result Original ViRexx became a wholly owned subsidiary of Novolytic Corp. The share exchange ratio for the amalgamation of Original ViRexx and Novolytic Corp. was established by agreement between their respective boards of directors in consultation with an independent investment banking firm.

Novolytic Corp. was incorporated under the laws of the State of Nevada, U.S.A. on October 30, 2000 and was continued into the Province of Alberta as a corporation subject to the ABCA on May 31st, 2002. On June 1, 2002, Novolytic Corp. was amalgamated under the laws of Alberta with Novolytic Inc. with the amalgamated corporation continuing under the name "Novolytic Corp." On June 1, 2002, immediately prior to the amalgamation of Novolytic Corp. and Novolytic Inc. the shareholders of Novolytic Inc. exchanged the 100 issued and outstanding shares of Novolytic Inc. for 100 class "A" common shares of Novolytic Corp. with Novolytic thereby becoming a wholly owned subsidiary of Novolytic Corp.

Novolytic Inc. was incorporated under the ABCA on April 8, 1999 under the name "A.C.T. Technologies Corp.", and on November 10, 1999 changed its name to Novolytic Inc.

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The original ViRexx was incorporated as "ViRexx Corporation" under the ABCA on June 6, 2001, and on October 26, 2001 changed its name to "ViRexx Research Inc."

On December 10, 2004, ViRexx completed a plan of arrangement pursuant to Section 193 of the ABCA involving ViRexx and AltaRex Medical Corp. ("AltaRex"), whereby amongst other things, ViRexx acquired all of the outstanding common shares of AltaRex (the "AltaRex Arrangement"). For each common share of AltaRex owned, AltaRex shareholders received one half of one ViRexx Share. Sixty percent of the ViRexx Shares received by AltaRex shareholders are freely tradable and the remaining forty percent were subject to a hold period until June 10, 2005. Also pursuant to the arrangement, all outstanding AltaRex stock options and warrants were deemed transferred to ViRexx (free of any claims) in consideration of new stock options or warrants for ViRexx Shares on the basis of one stock option or warrant for a ViRexx Share for every two AltaRex stock options or warrants with the exercise price of the such new ViRexx stock options and warrants being the price of the prior AltaRex stock options or warrants multiplied by two.

AltaRex was incorporated pursuant to the provisions of the ABCA as "AltaRex Medical Corp." on December 8, 2003. Effective December 23, 2003, AltaRex amended its articles of incorporation to remove its private company restrictions and restrictions on share transfer.

On February 3, 2004, AltaRex completed a plan of arrangement pursuant to Section 193 of the ABCA involving AltaRex, AltaRex Corp., the holders of the securities of AltaRex Corp. and Nova Bancorp Investments Ltd. (the "Bancorp Arrangement") whereby, amongst other things, AltaRex acquired substantially all the assets of AltaRex Corp. with a legally effective date of December 31, 2003, and has since carried on the business substantially as carried on by AltaRex Corp. prior to the completion of the Bancorp Arrangement.

Prior to the AltaRex Arrangement, the AltaRex common shares were listed and posted for trading on the Toronto Stock Exchange ("TSX") under the symbol "ALT". AltaRex was delisted from the TSX on December 16, 2004 as a result of the AltaRex Arrangement and ceased to be a reporting issuer in Canadian jurisdictions. ViRexx has not made any capital acquisitions or divestitures other than as described above and all of the funds it has in Treasury will be used to further its research and development programs.

The principal capital expenditures for the last three fiscal years of ViRexx were as follows:

	2004	**2003**	**2002**
Lab Equipment	$ 290,422	$ 87,994	$ 87,500
Leasehold Improvements	36,303	-	-
Office Furniture & Equipment	32,269	1,892	9,722
Computer hardware	32,269	4,731	-
Computer software	12,101	-	-
	$ 403,364	$ 94,617	$ 97,222

B. ***Business***

ViRexx is an Edmonton, Alberta based biotechnology company focused on the development of novel therapeutic product candidates for the treatment of certain cancers and chronic viral infections. Our most advanced programs include drug candidates for the treatment of ovarian cancer, chronic Hepatitis B & C and solid tumours. We have three technology platforms: the antibody-based immunotherapy ("AIT"), Chimigen™ and the T-ACT™platforms. The AIT™an Chimigen™ platforms are designed to stimulate the immune system to recognize and remove certain cancers and chronic viruses.

The lead product candidate from the AIT™ platform is OvaRex® MAb. OvaRex® MAb is currently the subject of a pivotal Phase III clinical trial in more than 60 sites in the United States. AltaRex, a wholly owned subsidiary of ViRexx (the "Subsidiary" or "AltaRex") has licensed to Unither Pharmaceuticals, Inc. ("Unither"), a subsidiary of United Therapeutics Corporation (NASDAQ: UTHR), exclusive rights for development and commercialization of OvaRex® MAb and four other monoclonal antibodies worldwide, with the exception of rights retained by the Subsidiary to countries in Europe[1] and in the Middle East and certain other countries. The Subsidiary has established strategic relationships with Dompé International S.A., Medison Pharma, Ltd. and Genesis Pharma S.A. for certain European and Middle-East Countries. Details on the agreement between ViRexx and Unither are as follows:

(a) Duration of the Agreement

The Agreement was made effective April 17, 2002. The royalty term is defined in relation to each product candidate in each country, the period of time equal to the longer of (i) ten (10) years from the date of the First Commercial Sale of such product candidate in such country, or (ii) if the manufacture, use, import, offering for sale, or sale of such product candidate in such country is covered by a valid patent claim, the term for which such valid patent claim remains in effect.

(b) Payment Terms

Milestone payments are payable by Unither to AltaRex upon achieving the following milestones: (i) completion of biologics license application ("BLA") filing and (ii) BLA approval by the FDA. Royalties are payable by Unither to AltaRex based on aggregate net sales of each product candidate sold in the Territory by Unither, its affiliates and sublicensees. The royalty to be paid increases with increasing annual net sales in a stepped manner to a maximum payable royalty.

(c) Termination Provisions

The agreement can be terminated due to a material breach by either party if such breach has not been cured within a 120 day period. Unither may terminate the agreement on a product by product basis, upon written notice to AltaRex and in consultation with AltaRex if (i) the safety of human subjects is at risk from such product candidate, (ii) the product candidate is not effective (iii) the product candidate cannot be affordably manufactured in compliance with Good Manufacturing Practices ("GMP"), (iv) if a third party is identified that has rights to intellectual property that would prevent commercialization of the product candidate, (v) the costs of developing the product candidate are prohibitive, (vi) the product candidate, through no fault of Unither does not achieve contemplated regulatory approval.

Upon termination, all rights and licenses to the Licensed Technology shall terminate and revert to AltaRex. Unither shall grant AltaRex a perpetual, royalty-free, irrevocable right to use (for any purpose) all data generated by Unither under the agreement.

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[1] Italy, Switzerland, Austria, Spain, Portugal, San Marino, Ukraine, Belarus, Hungary, Poland, Czech Republic, Yugoslavia, Lithuania, Estonia, Latvia, Greece, Turkey, Cyprus, Croatia, Bosnia, Herzegovina, Macedonia, Serbia, Slovenia, Albania, Romania, Bulgaria, Israel, Egypt, Jordan, Saudi Arabia, Yemen, Oman, Iraq, Syria, Qatar, Bahrain, Kuwait, UAE, Iran, Palestine, Lebanon

In the event of the institution by or against either party of insolvency, receivership, bankruptcy proceedings, or any other proceedings for the settlement of a party's debts which are not dismissed within sixty (60) days, or upon a party's making an assignment for the benefit of creditors, or upon a party's dissolution or ceasing to do business, the other party may terminate the agreement upon written notice.

(d) Other Material Terms

In the event that a material claim does not issue for a product candidate in the Territory, AltaRex may be subject to decreased royalties until a material claim does issue.

(e) Unither represents and warrants that:

(i) it will use commercially reasonable efforts to develop, commercialize and market product candidates for one or more indications within the field;

(ii) it will conduct all studies and clinical trials in accordance with all applicable laws, good clinical practices and medical ethical rules;

(iii) it will adhere to all applicable laws and good manufacturing practices in manufacturing, storing, selling and exporting of product candidates;

(iv) it will not use any individual to perform any services as contemplated by the agreement who has been disbarred pursuant to the United States Food, Drug and Cosmetic Act;

(v) it will adhere to all applicable laws regarding any of Unither's obligations under the agreement;

(vi) it will provide AltaRex with quarterly written progress reports.

The lead product candidate from the Chimigen™ platform is HepaVaxx B, a therapeutic vaccine for the treatment of chronic hepatitis B. HepaVaxx B is anticipated to begin a Phase I clinical trial in the fourth quarter of 2005. HepaVaxx C is the second product candidate from the Chimigen™ platform and is targeted to treat patients chronically infected with hepatitis C.

The T-ACT™ platform is designed to cut off the blood supply to tumours, leading to tumour tissue starvation and tumour death. The lead product candidate of the T-ACT™ platform is Occlusin™ Injection, a treatment for uterine fibroids and tumours of the liver. A Phase I clinical trial is underway studying the effects of Occlusin™ Injection in liver cancer patients.

AIT™ Platform Technology

In December 2002, Unither initiated a Phase III double-blinded, controlled multi-centre clinical trial for OvaRex® MAb consisting of two trials totalling 354 patients in the United States. Each trial consists of ovarian cancer patients in the "watchful waiting" period. OvaRex® therapy has shown clinical benefit in a previously reported Phase IIb trial. The primary objective of the Phase III study is to compare the time to disease relapse ("TTR") between OvaRex® MAb and placebo patient populations following successful surgery and chemotherapy. As at September 30, 2005, the trial has enrolled 301 of a targeted 354 patients. The two trials are anticipated to complete enrolment in early 2006 with results expected in early 2007.

In July 2004, Unither initiated an open-label, multi-center Phase IIa clinical trial for OvaRex® MAb in 40 ovarian cancer patients in the U.S. The trial will use OvaRex® MAb as an adjuvant to platinum-based front line chemotherapy in the treatment of advanced ovarian cancer patients. The primary objective of the study is to measure immunologic response to OvaRex® MAb. Enrollment is anticipated to be complete by the end of 2005.

In addition, we have been working closely with United Therapeutics related to conducting preclinical experiments in support of BrevaRex® MAb and ProstaRex® MAb.

The existing agreement between Unither and AltaRex established April 17, 2002, specifies that the license covers BrevaRexâ MAb and ProstaRexâ MAb. The indications for these therapeutic antibodies are breast cancer/multiple myeloma and prostate cancer, respectively. A Phase I clinical trial has been conducted establishing the safety of BrevaRexâ MAb. ProstaRexâ MAb is still in preclinical testing. Unither is responsible for the development program of both of these product candidates. Unither provides quarterly reports as to the status of the development programs for each of these therapeutic monoclonal antibodies. The development of each of these product candidates is progressing as demonstrated by peer reviewed publications and the progression of clinical testing.

T-ACT™ Platform Technology

On September 23, 2004, we received authorization from Health Canada to initiate a Phase I clinical trial for Occlusin™ Injection in liver cancer patients. The Phase I trial is being conducted at the Toronto General Hospital of the University Health Network under the direction of Dr. Morris Sherman. We anticipate 12 patients with primary liver cancer will be enrolled in the study. The trial is designed to examine the safety of Occlusin™ Injection when used as an embolizing agent as part of transcatheter arterial chemoembolization ("TACE") procedures for the treatment of cancer of the liver.

Chimigen™ Platform Technology

On April 20, 2005, we entered into an agreement with a contract manufacturer, Protein Sciences Corporation ("PSC") of Meriden, Connecticut, for the production of sufficient quantity of cGMP HepaVaxx B material for a Phase I clinical trial. We initiated the manufacturing in the second quarter of 2005.

We have a Collaborative Development Agreement with PSC for the supply of clinical material for the Hepatitis B program. PSC has agreed to supply up to one gram of material to meet our early clinical development program. The payment structure of this Agreement is milestone driven. The Agreement can be terminated by either party for a major breach of contract that is not corrected or for insolvency. We have the right to transfer the manufacturing technology to a third party with the payment of appropriate transfer fees, an annual maintenance fee and a royalty on sales. Under the agreement we have paid PSC a total of $395,538 (USD) to September 30, 2005 and anticipate paying a further $50,000 (USD) to the end of the agreement in January 2006.

We are currently evaluating potential clinical trial sites and developing, in consultation with potential investigators, a protocol for a Phase I clinical trial in healthy patients. We anticipate filing a CTA with Health Canada in the fourth quarter of 2005.

We continue to produce multiple Hepatitis C Virus ("HCV") prophylactic and therapeutic vaccine candidates upon which further evaluation will be conducted.

We expect to incur substantial research and development expenditures in 2005. This trend is expected to continue into future years as Occlusin™ product candidate development continues and HepaVaxx B and HCV vaccine move into clinical trials.

Product Candidate Pipeline

A summary of the development stage for each of the drug candidates is as follows:

Business Strategy

Our business strategy is to develop and commercialize therapeutic product candidates originating from our AIT™, Chimigen™ and T-ACT™ platform technologies in a timely and effective manner. We intend to realize value by focusing on commercializing proprietary, patent-protected and patent-pending product candidates through pharmaceutical company partnerships and alliances. In order to build value for strategic partnering, we will aggressively pursue regulatory approval of product candidates by conducting additional research and directing pre-clinical and Phase I and II clinical trials.

We intend to license our patented technologies to pharmaceutical companies, which would be responsible for completing Phase III clinical trials and for undertaking regulatory approvals. We anticipate that such licenses would provide for payment of fees, a portion of which would be payable upon execution and the balance of which would be payable upon achievement of clinical development milestones, and for payment of royalties from sales. This strategy would serve to avoid the high costs of Phase III trials that we would otherwise undertake, and generate revenues sooner than if we conducted those trials. There can be no assurance that we will be able to enter into such licenses.

AIT™ Platform Technology

Technology Overview

Tumour associated antigens which are found on the surface of a number of cancers and their metastases and secreted into the blood ("TAA") are expressed almost exclusively on cancer cells. We believe that TAA are therefore ideal targets for antibodies that act as immunotherapeutic agents. These tumour specific antigens are self produced and thus are not typically recognized as foreign by the patient's immune system. In some cases when over-expressed, they actively inhibit immune responses. Our antibodies are developed to reprogram the immune system to recognize specific "tumour specific" antigens as "foreign", thereby triggering the immune system to respond to and attack the antigens and their associated cancers. The resulting robust response employs both the humoral (antibody based - molecular) and cellular (T-cell responsive) arms of the immune system.

Murine MAbs against tumour specific antigens were initially envisioned as therapeutic agents capable of directly attacking cancer cells. Once thought to be "magic bullets," it was hoped that murine MAbs would effectively target and destroy malignant cells, but not affect healthy cells. This approach, however, proved to be disappointing. Relatively large doses of the MAbs were required, which caused problems relating primarily to adverse immunological reactions against the antibodies that the body recognized as large foreign proteins. The high dose MAbs caused toxicity with little efficacy. These adverse events, in combination with poor target selection due to lack of data on tumour antigens, led eventually to the virtual abandonment of murine MAbs as therapeutic agents.

Unexpected Discovery of Therapeutic Potential for Low Dose Monoclonal Antibodies

Low dose, highly specific MAbs can be used as diagnostic agents in oncology, where they are radiolabeled with a marker that can be imaged by external detectors. The anticancer effects of low doses of murine monoclonal antibodies were discovered serendipitously when one of our antibodies was being used for diagnostic purposes in patients with advanced ovarian cancer. Long-term follow up of these patients demonstrated unexpectedly, a survival benefit in a group of patients that were injected with the B43.13 antibody (OvaRex® MAb). These results do not provide enough evidence regarding efficacy or safety to support an application with the FDA. Additional tests will be conducted and it may be that subsequent results may not corroborate earlier results.

The mechanism by which low doses of MAbs activate immune responses to tumour specific antigens is, in part, analogous to the mechanism of a classic technique in experimental immunology used to produce antibodies against molecules that usually do not elicit an immune response. In this classic technique, the molecule of interest is attached to foreign antibody that is highly immunogenic by itself. In the process of attacking the foreign antibody, the body is also "tricked" into mounting an immunological reaction against the targeted molecule (tumour associated antigen).

Our murine MAbs have been shown in clinical studies to serve as highly immunogenic proteins that bind to circulating tumour specific antigens. The body's immune system creates humoral (antibody) and cellular (T cell) responses against both the MAb and the tumour specific antigen to which it binds. Very low doses of MAbs (administered intravenously) effectively induce this potentially therapeutic immune response.

Breaking MAb Tradition - Harnessing the Immune System

One of the historical challenges to the MAb field has been the natural shedding by tumours of associated antigens into the bloodstream. Once in circulation, these shed tumour antigens can interfere with monoclonal antibodies that are designed to directly bind target tumours. The antigens bind to and clear these antibodies from circulation, before they reach their destination (the tumour) to provide a direct pharmacological effect. In contrast, we engineer our monoclonal antibodies to take advantage of the binding and clearing process. The target for our antibodies is the antigen in circulation, rather than the tumour. Thus, our antibodies is to trigger the immune system to provide clinical benefit, rather than relying on the direct effect of the antibody on the tumour itself.

Clinical benefit is derived from binding our antibodies (foreign) to a single epitope on a circulating tumour antigen (self) in circulation, to generate immune responses to multiple epitopes ("multi-epitopic") of the target antigen, both in circulation and on the tumour. Our research demonstrates that our antibodies facilitate and modify tumour antigen processing to trigger T cell immunity where, previously, immune recognition to tumour antigen and tumour cells was not present. These results do not provide enough evidence regarding efficacy or safety to support an application to the FDA. Additional tests will be conducted and it may be that subsequent results may not corroborate earlier results.

OvaRex® MAb

Product Candidate Overview

OvaRex® MAb is a murine monoclonal antibody developed by us that has a high degree of specificity to a tumour associated antigen (CA125) that is over-expressed in over 80% of women with stage III/IV ovarian cancer (Bast et al. 1983; Tuxen et al, 1995). We believe that OvaRex® MAb acts as an immunotherapeutic agent by inducing and/or amplifying the human body's immune response against ovarian cancer.

OvaRex® MAb

- a fully foreign monoclonal antibody (MAb) that targets CA125 in circulation
- induces broad immune responses against CA125 and patients own ovarian tumours
- in final stages of clinical development - Phase II and Phase III ongoing
- benign safety profile and good quality of life during treatment
- has been granted Orphan Drug status in U.S. and Europe and Fast Track status in U.S.

OvaRex® MAb, is currently recruiting for two Phase III clinical trials, each with 177 patients diagnosed with ovarian cancer. The MAb is being targeted primarily for use in patients who have had a reduction in tumour burden through surgery and chemotherapy, and for those patients who have a residual amount of disease after the operation and who are at a very high risk of disease recurrence. OvaRex® MAb is licensed to United Therapeutics whose subsidiary, Unither, is conducting the clinical trials.

OvaRex® MAb has shown promise in treating ovarian cancer patients in both remission and recurrent stages of the disease. It is specifically designed for patients who have the CA125 marker in their blood, which is the most thoroughly studied serum marker for ovarian cancer, occurring in 80% of late stage ovarian cancer patients.

Our data suggests that a correlation exists between the extent of the immunogenic response against CA125 and progression-free and/or survival time of patients. The antibodies generated in response to the administration of OvaRex® MAb are directed against multiple epitopes (distinct submolecular regions) of the CA125 molecule, indicating a highly effective immune response to the product candidate. OvaRex® MAb recognizes only a single epitope on the cancer antigen and is capable of inducing a highly effective multi-epitopic response by the patient's immune system.

Over 500 ovarian cancer patients have participated in seven comprehensive OvaRex® MAb clinical trials across North America and Germany. Clinical results have demonstrated an increase in time to disease relapse and/or prolonged survival, coupled with a benign safety profile. Results from five studies have been reported, including results from our largest study in 345 ovarian cancer patients in the "Watchful Waiting" stage—the period of disease remission following first-line treatment of surgery and chemotherapy. These clinical results demonstrate a six-to-ten month prolongation in time to disease relapse for OvaRex® MAb-treated patients (versus placebo) in well-defined populations of 29%-48% of the 345 patients in the study. These well-defined populations also demonstrate a 19%-41% reduced risk of relapse for OvaRex® MAb treated patients (versus placebo). A decreased risk of relapse of 20%-25% is generally considered clinically significant by practicing physicians. A snapshot of the clinical development program for OvaRex® is provided below:

United Therapeutics has initiated an OvaRex® MAb Phase III pivotal trial to study the treatment of advanced ovarian cancer. Each of United Therapeutics' two identical trials are being conducted in the U.S. in Stage III/IV ovarian patients who have successfully completed primary treatment of surgery and chemotherapy. Treatment will continue until disease relapse occurs. The studies are double-blind, placebo-controlled and will each enroll 177 patients randomized 2:1 active versus placebo.

Patient enrollment is on-going and we expect United Therapeutics to have fully enrolled these trials in early 2006. OvaRex® MAb has been granted Orphan Drug status in the U.S. and Europe and Fast Track designation in the U.S. The timeline for regulatory submission of OvaRex® MAb will be determined by United Therapeutics for their licensed territories that include the U.S. and Canada (as per the April 17, 2002 licensing agreement). The Orphan Drug Designation for OvaRexâ MAb is for the treatment of ovarian cancer during the "watchful waiting period" (i.e. after treatment by chemotherapy and surgical removal of the tumour ("debulking")). This affords seven (7) years marketing exclusivity in the United States and ten (10) years marketing exclusivity in Europe. Although the incidence of ovarian cancer is relatively low in North America with 16,210 projected deaths in 2005 based on the American Cancer Society ("ACS") latest report and 63,000 cases in Europe, based on GLOBOCAN 2002 statistics, there is no approved therapy for the treatment of ovarian cancer in the "watchful waiting" period. Further, AltaRex has issued patents and patents pending that will afford further protection from competitors in this segment and of the cancer treatment market. Benchmark monoclonal antibody-based therapy reimbursements to treat other solid tumours suggest that AltaRex could receive a premium for its OvaRexâ MAb in the treatment of ovarian cancer patients. However, there is no guarantee that AltaRex or its licensees including Unither, will receive sufficient reimbursement to justify continued development of OvaRexâ MAb. Further, there is no guarantee that a competitor will not develop a therapeutic agent that will directly compete with OvaRexâ MAb for the specified target market.

Market Overview

Ovarian cancer is a malignant growth located in the ovaries in the female reproductive system. In the U.S., Canada, and Europe, ovarian cancer causes more deaths than any other cancer of the female reproductive tract, representing 4% of all cancers among women, and is the fifth most common cause of cancer fatality for women, according to statistics compiled by the ACS. Specifically, the ACS estimates that there will be 22,220 new cases and 16,210 deaths resulting from ovarian cancer in 2005. Approximately 3,000 new cases of ovarian cancer are reported in Canada each year. Based on the GLOBOCAN 2002 reports there were 63,000 new cases in Europe in 2002.

Based on these figures, we estimate that the market for treating ovarian cancer is over $1 billion per year in the U.S. Although detection of ovarian cancer at an early stage is now associated with an improved chance for successful treatment, survival figures have not changed significantly over the past 15 years. This is partially due to a lack of efficient diagnostic methods or markers for routine tests that could increase the number of patients diagnosed at the early stage of their disease. Consequently, in approximately three quarters of diagnosed patients, the tumour has already progressed to an advanced stage (Stage III/IV) (ASC 2003), making treatment more difficult.

In estimating the market for treating ovarian cancer we have conducted the following analysis. We have started with a conservative figure of 63,000 new ovarian cancer cases per year in countries with top tier medical case systems. Of these patients, 40,000 are eligible to be treated with OvaRexâ, for the "watchful waiting" indication of which there is no approved therapy currently.

Monoclonal Antibody therapies now commercially available in the US range in price from $16,000/patient/year to $57,000/patient/year. OvaRexâ MAb is expected to be priced towards the middle of this range at about $20,000/patient/year. At this price the market for the 'watchful waiting' indication could be around $800,000,000 (USD)/year. A second indication is being explored for OvaRexâ MAb, namely frontline therapy. This would be used in conjunction with chemotherapy. This indication could open up the ovarian cancer market to the full 63,000 patients/year and therefore at about $20,000 price per patient, would translate to a market size of $1.26 Billion.

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Ovarian cancer typically exhibits vague symptoms, and is therefore called “The Disease That Whispers”. It is particularly difficult to detect given the location of the ovaries and is most often not diagnosed until at a late stage in the disease, at which point, it has already spread to other parts of the body. Consequently, only approximately 25% of ovarian cancers are diagnosed in the early stages (Am Cancer Soc 2003). Noticeable symptoms commonly occur in more advanced stages of tumour growth when pressure from the tumour is exerted on the patient’s bladder and rectum, and as fluid begins to form in the abdomen.

Treatment for ovarian cancer typically includes surgery, radiation therapy, and chemotherapy, with an average 5 year survival of less than 30% (Ozols et al. 1997, Barek 2000). Initial surgery for the purpose of diagnosis is usually performed by laparoscopy. The procedure will occasionally include debulking, which is the removal of all visible cancerous growth. The procedure may also involve the removal of one or both ovaries and fallopian tubes (salpingo-oopharectomy), as well as the uterus (hysterectomy). Additional surgeries may be indicated, or pursued through fiber optic scopes to ascertain response to chemotherapy, or to remove additional cancerous tissue.

Treatment

Treatments and patient prognosis are highly dependent upon the type of ovarian cancer and the extent to which the disease has spread prior to diagnosis. More than 80% of Stage III/IV patients express the tumour associated antigen CA125 (Bast et al. 1983; Tuxen et al. 1995) (an antigen that is self produced and is highly associated with ovarian cancer). The therapeutic approach prescribed for these patients whose tumours have progressed to an advanced stage consists of debulking in combination with adjuvant chemotherapy, which improves the patient’s prognosis, particularly if the residual tumour is less than two centimeters.

In recent years, new chemotherapeutic agents used either as single treatments or in combination with other therapeutic agents have demonstrated an increase in survival time. Despite their apparent positive effect on survival time, however, these agents are generally associated with significant toxicity and side effects that reduce the patient’s quality of life. Currently, the most common chemotherapy for patients with newly diagnosed ovarian cancer is carboplatin (Paraplatin) or cisplatin (Platinol) with paclitaxel (Taxol). Carboplatin and cisplatin are “platinum agents” (chemicals that contain platinum). Given the rigors of repeated chemotherapeutic treatments, and taking into account the low response rates and the modest effect on prolonging survival time, patient quality of life has become a major issue. This is increasingly true as ovarian cancer affects a larger number of older and postmenopausal women.

Competition

To our knowledge, there are no products available for commercial sale or under development for the treatment of advanced ovarian cancer in the “watchful waiting” period.

Chimigen™ Platform Technology

Technology Overview

In a healthy individual, foreign antigens (such as proteins derived from a bacterium, virus and/or parasite) normally elicit an immune response. This immune response has two components:

Humoral (Antibody) Response: Antibodies produced by B-cells are secreted into the blood and/or lymph in response to an antigenic stimulus. The antibody then neutralizes the pathogen (virus, bacteria or parasite) by binding specifically to antigens on its surface, marking it for destruction by phagocytic cells and/or complement-mediated mechanisms.

Cellular Response: The cellular immune response leads to the selection and expansion of specific helper and killer T-cell clones capable of directly eliminating cells which carry the antigen.

In many individuals, the immune system does not respond to certain antigens. When an antigen does not stimulate the production of a specific antibody and/or cellular response, the immune system is not able to ward off the resultant disease. As a result, the host will develop tolerance to the infectious agent and becomes a chronic carrier of the disease.

ViRexx is conducting tests intended to demonstrate that its Chimigen™ technology directs both arms of the body's immune system to attack the infectious agent. It is hoped that the tests will show that the Chimigen™ therapeutic vaccine will stimulate the immune system to recognize and destroy the disease-causing agent located both within the cell and in circulation.

For chronic hepatitis B and C infections, we have developed a number of chimeric molecules (hybrids of viral antigens and fragments of a murine antibody) specifically designed to be processed by antigen presenting cells. These chimeric molecules elicit the desired cellular as well as humoral immune response that may break tolerance to the viral antigen(s).

Chimigen™ vaccines are chimeric molecules consisting of selected antigens fused to a murine Fc fragment. We are in the process of testing to confirm that the Chimigen™ technology encompasses a molecular design recognizable by the body's immune system to break tolerance by mounting a humoral as well as a cellular response to the antigen to possibly clear the virus that is responsible for the chronic infection.

Chimigen™ vaccines contain two domains, the "Target Binding Domain" and the "Immune Response Domain". The Target Binding Domain targets the Chimigen™ vaccine to specific receptors on antigen presenting cells and the Immune Response Domain contains selected antigens. These vaccines can be produced either as fusion proteins using recombinant methods, or as their individual components with "supermolecular glue" connecting them. Our recombinant technology allows for efficient substitution of a desired antigen onto the Target Binding Domain backbone of the Chimigen™ vaccine. This enhances our ability to produce highly desirable and effective multivalent vaccines. Thus the Chimigen™ technology is a platform that lends itself to adaptation to a variety of antigens produced in a number of disease conditions including cancer. Since the Target Binding Domain of the vaccines is a common component, the standardization of the manufacturing process of only the antigen component is simplified for new vaccines.

HepaVaxx B

Product Candidate Overview

HepaVaxx B is a Chimigen™ therapeutic vaccine developed by us for the treatment of chronic hepatitis B viral infections. Application to commence Phase I clinical trials is expected in the fourth quarter of 2005.

HepaVaxx B consists of a recombinant chimeric molecule containing the elements of both a hepatitis B viral antigen and a murine antibody. The molecule is designed to target antigen presenting cells that play a dominant role in activating the body's immune system. Validation of the uptake, processing and activation of the cells responsible for modulating the immune response was conducted by us using specialized assay systems. The selected Chimigen™ vaccine is expressed in insect cells which produce the desired potential product.

Market Overview

The market for ViRexx's HepaVaxx B is global.

Hepatitis B Virus Market Size

	Globally	US
People Chronically Infected	370 million	1.25 million
New Cases Per Year	Not Available	78,000

Source: Center for Disease Control Hepatitis B Fact Sheet (2003)

Source: World Health Organization 2000

Hepatitis B is one of the major diseases of mankind and is a serious global public health problem. The World Health Organization estimates that one out of every three people have been infected with the Hepatitis V Virus ("HBV") of whom approximately 350 million have developed a chronic HBV infection. The specific target population within this pool will be defined through the clinical development process. Application to commence clinical trials is scheduled in the fourth quarter of 2005.

The virus is very common in Asia, (especially Southeast Asia), Africa, and the Middle East, with more than 370 million chronically infected carriers worldwide representing 5% of the world's population. Approximately 1.25 million chronic carries of HBV live in the U.S. An estimated 10 to 30 million additional people world wide will become infected with the virus each year.

There are approximately one million deaths each year attributed to chronic HBV infection. Studies have shown that it is possible to be acutely infected with HBV and experience no illness or symptoms whatsoever. It is, however, common in an acute infection to feel unwell, tired, and suffer a loss of appetite. Occasionally the characteristic yellowish color of jaundice can be observed in the whites of the eyes, a condition that can last from a few days to a few months. Itching skin and pale stools may also occur. In some cases, acute HBV infections can be fatal, especially among the elderly.

People with a chronic hepatitis infection are at risk for significant liver damage. Approximately 20-30% of chronically infected people (30-35% of chronically infected males) develop cirrhosis of the liver and/or liver carcinoma over a 20-30 year time period.

Competition

We have noted that at least 28 companies including several major international pharmaceutical companies (Bristol-Myers Squibb, Chiron, GlaxoSmithKline, ION Pharmaceuticals) are developing new and novel products for the treatment or prevention of chronic hepatitis B virus infection. The developmental strategies being employed by these biotech and pharmaceutical companies may be categorized as (a) nucleoside reverse transcriptase inhibitors of viral replication (e.g., Entecavir), (b) non-nucleoside reverse transcriptase inhibitors of viral replication (e.g. Robustaflavone), (c) monoclonal antibodies (HepX^{TM}-B), (d) vaccines (e.g., Hepatitis B DNA vaccine), and (e) other immunologic therapies (e.g., EHT899 & HspBCor).

We believe that an apparent downside of the majority of these approaches is that they have no or little potential to permanently cure the patient of hepatitis B virus infection, since these treatments do not eradicate the reservoir of the HBV that remains inside the patient's cells. It is this limitation that distinguishes our approach to the treatment of the hepatitis B patient from that of its competitors. The developmental strategies noted above will in all likelihood reduce the viral load in the patient's blood, but unfortunately for the majority of patients, once the therapy is stopped the hepatitis virus will begin to replicate again within the patient's cells that contain the viral DNA. In contrast, we believe that HepaVaxx B Vaccine will elicit both humoral and cellular immune responses in chronic hepatitis B patients, and that a strong cellular immune response directed against hepatitis B antigens will have the potential to eradicate the patient's cells that harbour hepatitis B viral DNA.

Furthermore, past experience has shown that during long term therapy with existing antiviral agents (e.g., lamivudine), the patients that had the best chance of eliminating the virus were the patients that had an immune response to the virus prior to starting the antiviral agent. We believe the board humoral and cellular immune responses induced by HepaVaxx B will increase the effectiveness of antiviral therapy when used in combination.

HepaVaxx C

Product Candidate Overview

HepaVaxx C is a Chimigen™ therapeutic vaccine being developed for the treatment of chronic hepatitis C viral infections. HepaVaxx C consists of a recombinant chimeric molecule containing the elements of both hepatitis C viral antigen and a murine antibody. The molecule is designed to target a particular set of cells that play a dominant role in the body's immune system. Plans are in place to carry out a pre-clinical evaluation of vaccine candidates using specialized assay systems.

Market Overview

The market for ViRexx's HepaVaxx C is global.

HCV Market Size

	Globally	US
People Chronically Infected	170 million	2.7 million
New Cases Per Year	3-4 million	25,000

Sources: World Health Organization Fact Sheet WHO/164 - October (2000)

Source: World Health Organization (2000)

The World Health Organization estimates that 170 million people are chronically infected with HCV (more than four times as many as infected with HIV) and conservatively 3 to 4 million people are newly infected each year. (Source: WHO Fact Sheet WHO/164 - October 2000.)

According to Hepatitis Central™, chronic HCV is predicted to become a major burden on the health care system over the next 10 to 20 years, as patients who are currently asymptomatic will progress to end-stage liver disease and cancer. The specific target population within this pool will be defined through the clinical development process. HepaVaxx C is currently in the pre-clinical stage of development.

Approximately 75% to 85% of individuals infected with HCV will develop a chronic infection, of whom approximately 15% to 20% will develop chronic liver disease progressing to cirrhosis. Between 1% and 5% of people with chronic infections will develop liver cancer over a period of 20 to 30 years.

An estimated 4 million people have been infected with HCV in the U.S., of whom 2.7 million are chronically infected. According to the U.S. Centre for Disease Control and Prevention ("CDC"), new infections in the U.S. have dropped from approximately 240,000 annually in the 1980s to less than 25,000 in 2001. This is largely due to the availability of a diagnostic antibody test, which was introduced in 1990 to screen and eliminate HCV-infected blood from the nation's blood supply. (Source: Centre for Disease Control Hepatitis C Fact Sheet (2003).)

Since 1990, all donated blood in the U.S. has been screened for the presence of the virus, thus eliminating almost all cases of transmission through transfusion. While this screening test has also been adopted by many other industrialized nations, the rest of the world is still at risk from transfusions as well as the other common routes of transmission (especially contaminated needles). In the absence of blood screening, many, if not most carriers, have no idea that they are infected, or that they should take precautions against infecting others.

While the incidence of infection in the U.S. has decreased since the 1980s, the rate of deaths attributable to HCV continues to increase as people infected decades ago begin to manifest the disease. According to the CDC, 8,000 to 10,000 people currently die each year from HCV-related liver disease. HCV continues to be the number one reason for liver transplants. The CDC has predicted that the death toll will triple by the year 2010 and exceed the number of U.S. deaths due to AIDS. In addition, HCV is now the most common blood-borne infection in the U.S.

According to Hepatitis Central™, chronic HCV is predicted to become a major burden on the health care system over the next 10 to 20 years as many patients who are currently asymptomatic will progress to end-stage liver disease and cancer. Predictions in the U.S. indicate that there will be a 60% increase in the incidence of cirrhosis, a 68% increase in hepatoma, a 279% increase in hepatic decompensation, a 528% increase in the need for transplantation, and a 223% increase in liver death rate.

Presently, the only therapy for hepatitis C infection is interferon and ribavirin. However, this combination is expensive, has significant side effects and is only effective in approximately 40% - 50% of selected patients. The epidemic proportions of HCV infection, the limited efficacy and expensive nature of approved therapeutics, the high cost of liver transplants (about $250,000 each) and the huge burden on the healthcare system in Canada alone (about $600 million in 1998, just in medical and work-loss costs), all point to the need for prophylactic vaccines and new therapies to treat the disease. (Source: Health Canada News Release, September 18, 1998 and Fields Virology (2000) Volumes I and II (Fourth Edition).)

Competition

We believe HepaVaxx C has the ability to be applied not only as a therapeutic vaccine, but also as a prophylactic vaccine. At present, we do not know of any prophylactic vaccines available to prevent HCV infections, and it is common knowledge that there are no effective therapeutic vaccines for chronic HCV infections.

We have determined that there are more than 14 companies, including several major international pharmaceutical companies (Chiron, Roche, ICN Pharmaceuticals, Schering-Plough, and Eli Lilly), developing innovative drugs for the treatment of hepatitis C. The major thrust of the development strategies may be categorized as (a) biological response modifiers[2] (e.g., (interferon -n3), (b) antiviral nucleosides (e.g., Viramidine), (c) immune globulins (e.g., Civacir™ hepatitis C immune globulin), (d) monoclonal antibodies (e.g., XTL-002), (e) ribozymes (e.g., Heptazyme™), (f) antisense drugs (e.g. ISIS 14803), (g) small molecule protease inhibitors (e.g., LY570310 / EILM2061), and (h) other strategies (e.g., human recombinant lactoferrin).

Among these developmental strategies, the biological response modifiers "(BRMs") (e.g., interferon-alpha) appear to hold the greatest promise of success for treatment of hepatitis C. However, the premise of BRMs is that they will enhance, direct or restore the body's ability to fight disease and provide a non-specific boost to the patient's immune system which will then mount an attack on hepatitis C viruses. As has been noted elsewhere, the disadvantage of BRMs such as interferon-alpha is that while they do impart a general immune boost that is effective in many patients, the side effect profile is very poor and many patients must discontinue therapy because they cannot tolerate the adverse effects.

We believe that treatment of chronic hepatitis C patients with HepaVaxx C vaccine may yield, if any, a side effect profile similar to that of any other prophylactic vaccine in that the most common adverse events will be limited to flu-like symptoms for a day or two. Furthermore, we believe that the HepaVaxx C vaccine will elicit both strong humoral and cellular immune responses in chronic hepatitis C patients, and that a cellular immune response directed against hepatitis C antigens will have the potential to eradicate the patient's cells that harbour hepatitis C virus.

Chiron Corporation

Chiron Corporation is developing prophylactic and therapeutic vaccines using recombinant HCV antigens and adjuvants.

Schering-Plough Corp.:

Schering-Plough Corp.'s ("Schering-Plough") Interferon product ("alpha-interferon"), PEG-INTRON, is currently the preferred treatment for HCV because it appears to be less toxic than Rebetol. Schering-Plough has developed a combination therapy with this product and ribavirin that was approved by European regulators in March 2001 and has been approved by the FDA.

F. Hoffman-La Roche Ltd.:

F. Hoffman-La Roche Ltd. ("Roche") is developing an experimental therapeutic for the treatment of HCV infections. In a head-to-head Phase III clinical trial conducted by researchers at the University of Carolina, it was found that patients treated with Roche's PEG interferon -2a or Pegasys, combined with preparation of the antiviral agent ribavirin, was effective in 56% of patients tested, relative to 45% of subjects taking Schering-Plough's Rebetol, the current industry standard.

In the Roche trial, researchers discovered that the most common side effects, depression and flu-like symptoms, were less frequently exhibited in the Pegasys and ribavirin group than in the group taking ribavirin alone. Depression occurred in 21% of those taking the combination therapy, compared with 30% in the ribavirin alone group, and 20% in the group taking Pegasys without ribavirin. (Source: Roche Press Release - May 22, 2001:http://www.natap.org/2002/Nov/111902-4.html.) However, the high cost (approximately U.S.$31,000 for a year's supply) and the frequency of side effects with moderate efficacy make this therapy less than desirable. (Source: Fields Virology (2000) Volumes I and II (Fourth Edition))

[2] BRMs or cytokines comprise a group of proteins made by the human body that alter the immune response to enhance, direct or restore the body's ability to fight disease. BRMs include colony stimulating factors, erythropoietins, interferons, interleukins, and Tumour Necrosis Factor (“TNF”) inhibitors.

T-ACT™ Platform Technology

Technology Overview

It is common knowledge that depriving a tumour of its blood supply has great potential in the fight against cancer and the treatment of benign tumours. Many large pharmaceutical companies conducting clinical studies have clearly established the concept that cutting off the blood supply to tumours causes them to regress and become dormant. Furthermore, cutting off the blood supply reduces the ability of cancers to invade tissues and to spread to other parts of the body.

Our T-ACT™ platform is a novel and proprietary targeted tumour starvation technology. The platform consists of two complementary product candidate groups, Occlusin™ and Tactin, and is based on site-specific platelet-mediated thrombosis of solid tumour vasculature. The T-ACT™ technology platform has the potential to produce a wide range of product candidates that stop the flow of blood to solid tumours, both malignant (cancer) and non-malignant (benign). Blockage of tumour tissue vasculature by targeted thrombosis starves the tumour of oxygen and essential nutrients, resulting in tumour regression and ultimately in tumour tissue death.

The T-ACT™ platform technology harnesses the body's natural abilities to produce a blood clot in response to immobilized von Willebrand Factor ("VWF"). VWF circulates in the blood stream in an inactive state. Once it becomes immobilized in response to blood vessel damage, VWF is then able to capture circulating platelets and stop the flow of blood from the injured vessel.

The Occlusin™ technology includes several types of particles coated with VWF or other platelet binding proteins. These particles, delivered through a microcatheter, are tailor-made for the indication for which they are being delivered. Particle size is selected such that upon initiation of platelet reactivity with the particles (i.e., platelet binding to the particles) progression of the particles beyond the capillary bed cannot occur. By varying the particle size, shape and composition, while maintaining a clot forming component (e.g. VWF), the Occlusin™ agents will rapidly and efficiently block arteries of various sizes and locations. Furthermore, Occlusin™ agents can be made of either materials that are biodegradable or materials that would remain permanently resident in the body.

We believe that the Occlusin™ product candidates are ideal for the treatment of uterine fibroids (benign tumour) and hepatocellular carcinoma (primary liver cancer).

Occlusin™ Product Candidates

Product Candidate Overview

Occlusin™ product candidates will be our lead product candidate for the treatment of uterine fibroids and liver cancer. Based on the T-ACT™ platform technology, the product candidates consist of solid biodegradable particles coated with a platelet-binding agent. These agents are delivered by catheter to the main vessels feeding the tumour.

Market Overview

The Occlusin™ product candidate market is a global market.

Uterine Fibroid Market Size

	Globally	US
Prevalence	30 - 40% of women 30-50 years of age	10.5 million
Target Market	20% of prevalence	2.1 million

Source: Canadian Coordinating Office for Health Technology Assessment; Statistics Canada; Central Intelligence Agency Population Statistics; Society of Interventional Radiology.

Uterine fibroids, also called leiomyomas, are benign tumours that can grow on the inside or outside of the uterus, or within the uterine wall. Their size can vary from that of a pea to the size of a full-term pregnancy. While most women with fibroids are symptom-free, approximately 25% to 30% experience prolonged bleeding, which can lead to anaemia and/or pain in the pelvis, abdomen, back or during sexual intercourse. Fibroids can also prevent a woman from conceiving, or can induce a miscarriage or premature labour. As fibroids grow and expand, they exert pressure upon the bladder and lower intestine and can cause difficult or increased urination, constipation, and a feeling of fullness.

The Society of Interventional Radiology estimates the incidence of uterine fibroids of significant size at 20% to 40% of women 35 years of age and older and 20% (two million women) experience severe debilitating effects. Corresponding numbers of women relative population in the rest of the world are similarly afflicted. ViRexx will determine the target market for its Occlusion Injection product candidates by continued market analysis and through the clinical trial process.

Hysterectomy (complete removal of the uterus) or myomectomy (partial removal of the uterine wall) has been the treatment of choice for women suffering from severe side effects of uterine fibroids. These invasive surgical procedures require long hospital stays and recovery time, post surgery. In contrast, the uterine fibroid embolization ("UFE") is a minimally invasive technique delivered as an outpatient procedure with minimal recovery time.

UFE involves delivering tiny embolic particles to the blood vessels feeding the fibroid. The particles are delivered by catheter and function to block the vasculature associated with this benign tumour. Once the blood supply is cut off, the fibroid shrinks resulting in symptom relief.

Recent study results presented at the Society of Interventional Radiology annual meeting (March 2003) confirm the superiority of UFE over hysterectomy. Women treated by UFE had reduced hospital stay (0.8 days versus 2.3 days) and less time away from work (10.7 days versus 32.5 days) in comparison to hysterectomy. In addition, the UFE group experienced significant reductions in blood loss and pain associated with the procedure.

Liver Cancer Market Size (primary + secondary to colorectal cancer)

	Globally	US
Prevalence	1,691,228	176,456
New Cases per year	1,137,738	97,836

Source: GLOBOCAN 2002

While primary liver cancer is not as prevalent in North America, in the less developed parts of the world such as Africa, Southeast Asia, and China, it is responsible for 50% of all cancer cases. This dramatic difference is believed to be due to the much higher prevalence of hepatitis B virus carriers in those regions, which predisposes to the development of hepatocellular carcinoma (“HCC”).

According to GLOBOCAN 2002, the worldwide prevalence of primary liver cancer was estimated to be 626,162 cases and, of these, over 411,000 were located in China, 18,000 in North America and 38,000 in Europe. The number of patients who died worldwide from primary liver cancer in 2002 was estimated to be 600,000. ViRexx will determine the target market for its Occlusin Injection product candidate(s) by continued market analysis and through the clinical trial process.

In the U.S., the five-year survival rate for patients with all stages of liver cancer is 6%. The five year survival rate of American patients diagnosed with localized liver cancer is 14% and a mere 1% for patients with distant disease. There has been little improvement in the five-year survival rate for U.S. liver cancer patients since the mid 1970s when the overall survival rate was 4%. (Source: American Cancer Society, 2002 Statistics.)

A significant number of patients develop liver cancer secondary to other types of cancer. For example, 50% of patients with colorectal cancer develop liver metastases. GLOBOCAN 2002 estimates indicate that over 1 million cases of colorectal cancer occurred worldwide in the year 2002. Other types of cancer that progress to liver cancer through metastasis includes: breast, lung, pancreatic, stomach, large bowel, kidney, ovarian, and uterine cancer.

Competition

Embolotherapy, the blocking of blood vessels feeding a target tissue, has been practiced for more than 30 years. Several companies, in recent years, have focused on producing specific embolic agents for the treatment of various forms of solid tumours.

Biosphere Medical Inc.:

Biosphere Medical Inc.'s Embosphere™ microsphere technology is the perceived market leader in the area of embolotherapy. This company has developed several forms of its acrylic-based microspheres to treat both liver cancer and uterine fibroids. Embosphere™ Microspheres was recently approved by the FDA for the treatment of uterine fibroids.

Cook Incorporated:

Cook Incorporated markets polyvinyl alcohol ("PVA") foam particles. This company markets several different sizes of the particles to block various sizes of blood vessels. Cook Incorporated also markets materials such as catheters required in UFE procedures. PVA particles are inert and serve only to physically interfere with the blood flow to the target tissue. In addition, the irregular shape of the PVA particles can result in clogging of the delivery catheter.

Tactin Technology

Technology Overview

Tactin agents are systemically delivered (injected intravenously) and include a series of cancer targeting components against markers such as TAAs found on the surface of a number of cancers and their metastases including liver, breast, lung, prostate and head and neck. The Tactin agents are capable of localizing platelets at a predetermined site by (a) binding to tumour cells that display unique TAAs and (b) by subsequently capturing a separately administered thrombus formation component ("TFC"). We believe that our TFC, VWF, is an exceptional platelet binding and activating protein, that when fixed to the tumour by the cancer targeting component induces a thrombus only within the confines of the tumour vasculature. Thus, the Tactin product candidates utilize a tumour localized platelet collection and activation process through binding of a targeting agent to a tumour associated antigen, which subsequently leads to thrombus formation and limits the blood supply to the target area, and does this without inducing a generalized or systemic pro-thrombotic state.

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Tactin agents affect the vascular system supplying tumours. The tumour targets are directly accessible to arterially or intravenously administered agents permitting rapid localization of a large percentage of the injected dose. We expect this to result in rapid occlusion of the tumour vasculature. Each capillary in a tumour provides oxygen and nutrients to thousands of tumour cells, so that even limited damage to the tumour vasculature has the potential to produce extensive tumour cell death.

Various targeting agents can be used in combination with the common TFC to achieve an effective response in a broad range of tumour and hyperplastic tissue pathologies. As an example, a targeting agent that binds to Alpha Fetal Protein ("AFP") can be married to the same thrombus-inducing agent. This same thrombus-inducing agent can also be linked, in vivo, to other targeting agents that bind to other specific antigens (e.g., TAG-72, associated with colorectal cancer).

Market Overview

Please refer to the "Market Overview" section of the Occlusin™ Injection technology in this Form 20-F for an in depth discussion of the existing market.

Intangible Properties

We are a party to collaborative agreements with third parties relating to OvaRex® MAb and four other product candidates from the AIT™ platform. Please refer to "Risk Factors - The Corporation is dependent on the success of its strategic relationships with United Therapeutics and other third parties" for further details.

Proprietary Protection

We rely upon patent protection and trademarks to preserve its proprietary technology and its right to capitalize on the results of its research and development activities and, to the extent it may be necessary or advisable, to exclude others from appropriating its proprietary technology.

Confidentiality

Since some of our technology is not patented or licensed but protected by the law of trade secrets, our ability to maintain the confidentiality of our technology is crucial to our ultimate possible commercial success. In order to protect our confidential information, we have adopted the following procedures:

- all of our employees must sign and are bound by confidentiality agreements;

- no sensitive or confidential information is disclosed to any party unless appropriate confidential disclosure agreements are first signed; and

- all confidential material that is provided to a party is marked as confidential and is requested to be returned when the user no longer has a need to have the material, or when the term of any applicable confidential disclosure agreement governing the use of the material expires.

We are unaware of any violations of our confidentiality procedures, and to date we have never experienced a violation of our confidentiality procedures that has caused our company material harm. Nevertheless, we cannot assure you that our procedures to protect confidentiality are effective, that third parties will not gain access to our trade secrets or disclose our technology, or that we can meaningfully protect our rights to our trade secrets. We cannot prevent a person from violating the terms of any confidential disclosure agreement. Furthermore, by seeking patent protection in various countries, it is inevitable that important technical information will become available to our competitors, through publication of such patent applications. If we are unable to maintain the confidentiality of our technology in

appropriate circumstances, this could have a material adverse impact on our business, financial condition, and results of operations.

Our Patents

Our success depends in part on our ability to obtain patents, operate without having third parties circumvent our rights, operate without infringing the proprietary rights of third parties, and maintain trade secret protection. As of the date of this registration statement, we had 46 issued patents and 141 pending patent applications relating to our various technologies in the United States, Canada, the European Union, and other countries, of which we have been granted 6 patents in the United States. The expiry date for these 6 are: 5/13/2016, 1/17/2017, 6/15/2019, 11/12/2019, 8/18/2020 and 5/11/2021. The dates reflecting the expiration date of the longest-lived patent rights listed herein do not take into consideration the possibility that a failure to maintain these patents, a terminal disclaimer or other future actions may affect the actual expiration date of the patents. Pending applications may never mature into patents, which could affect the lifespan of certain licenses. Finally, future applications could result in the extension of the license term beyond the dates listed above.

The patent position of pharmaceutical and biotechnology companies is uncertain and involves complex legal and financial questions for which, in some cases, important legal principles are largely unresolved. Patent offices vary in their policies regarding the breadth of biopharmaceutical patent claims that they allow. In addition, the coverage claimed in a patent application can be significantly reduced during prosecution before a patent is issued. We may not be granted patents of meaningful scope based on the applications we have filed and those we intend to file. We cannot assure you that our pending patent applications will result in patents being granted, that we will develop additional proprietary product candidates that are patentable, that patents that have already been granted to us will provide us with any competitive advantage or will not be challenged or invalidated by any third parties, or that patents of others will not have an adverse effect on our ability to do business. In addition, the laws of certain foreign countries do not protect intellectual property rights to the same extent as do the laws of Canada or the United States. We cannot assure you that others will not independently develop similar products or processes, duplicate any of our potential products or processes, or design around the potential products or processes we may patent.

Our Patent Policy

We pursue a policy of obtaining patent protection both in the U.S. and in selected foreign countries for subject matter considered patentable and important to our business. Our patent portfolio currently includes patents with respect to our unique approaches to immunotherapy, compositions of matter, their immunological utilities, broad claims to therapeutic methods, specific claims for use of these compositions to treat various disease states, and the pharmaceutical formulation of these compositions. We have also sought patent protection with respect to embolotherapy, related compounds, methods and strategies for therapy, routes of administration and pharmaceutical formulations. In addition, a portion of our proprietary position is based upon the use of technology and potential products we have licensed from others, including the master cell bank licensed from Biomira Inc. for OvaRex® MAb. The license agreement generally requires ViRexx to pay royalties upon commercialization of potential products covered by the licensed technology. We currently have exclusive licenses from the University of Alberta to 2 patent applications

Third Party Patents

Our commercial success also depends significantly on our ability to operate without infringing the patents and other proprietary rights of third parties. From time to time, companies may possess rights to technologies in the same areas of research and development as ours, may have patents similar to ours, and may notify us that we may require licenses from them in order to avoid infringing their rights in that technology or in order to enable us to commercialize our own technology. Patent applications are, in many cases, maintained in secrecy until patents are issued. Our competitors or potential competitors may have filed applications for, or may have received patents and may obtain additional and proprietary rights to compounds or processes used by us or are competitive with ours. The publication of discoveries in the scientific or patent literature frequently occurs substantially later than the date on which the underlying discoveries were made and patent applications are filed. In the event of infringement or violation of another party's patent, we may be prevented from pursuing potential product development or commercialization. In addition, we may be required to obtain licenses under patents or other proprietary rights of third parties. We cannot assure you that any licenses required under such patents or proprietary rights will be available on terms acceptable to us. If we do not obtain such licenses, we could encounter delays in introducing one or more of our product candidates to the market, without infringing third party patents, or we could find that the development, manufacturing or sale of potential products requiring these licenses could be foreclosed.

Patent Litigation

Patent litigation is becoming widespread in the biopharmaceutical industry and we cannot predict how this will affect our efforts to form strategic alliances, conduct clinical testing, or manufacture and market any of our product candidates that we may successfully develop. We are unaware of any potential issues related to our possible infringement or violation of another party's patent. If challenged, however, our patents may not be held to be valid. We could also become involved in interference or impeachment proceedings in connection with one or more of our patents or patent applications to determine priority of invention. If we become involved in any litigation, interference, impeachment, or other administrative proceedings, we will likely incur substantial expenses and the efforts of our technical and management personnel will be significantly diverted. We have the obligation to protect and bear the cost of defending the patent rights of the patents we own. With respect to our licensed patents we have the right but not the obligation to bear the cost of defending patent rights from third parties. A decision to pursue a patent infringement action may be prohibitively expensive.

More specifically, we cannot assure you that we will have the financial or other resources necessary to enforce or defend a patent infringement or proprietary rights violation action. Moreover, if our potential products infringe the patents, trademarks, or proprietary rights of others, we could, in certain circumstances, become liable for substantial damages, which also could have a material adverse effect on our business, financial condition, and results of operations. Where there is any sharing of patent rights, either through co-ownership or different licensed "fields of use", one owner's actions could lead to the invalidity of the entire patent.

In relation to the License Agreement established between us and Biomira Inc. dated November 24th, 1995, we are responsible for the maintenance of existing patents and the prosecution of all patent applications related to the licensed technology. In addition, we are responsible for the payment of all fees and costs incurred related to the filing, prosecution and maintenance of the patent applications and patents included in the licensed technology.

In relation to the License Agreement established between us and the Governors of the University of Alberta ("U of A") for the rights to use Methods of Eliciting a Th1-specific Immune Response, the U of A is responsible for the maintenance of existing and prosecution of all patent applications related to the licensed technology. As of the effective date of the agreement, May 1, 2002, we are responsible for the payment of all fees and costs incurred by the U of A related to the filing, prosecution and maintenance of the patent applications and patents included in the licensed technology. These obligations are not considered material.

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Economic Dependence and Foreign Operations

We are dependent on the success of our strategic relationships with United Therapeutics. We, through the license agreement with United Therapeutics, are reliant on strategic relationships with third parties to the storage of the master cell banks for the OvaRexâ, BrevaRexâ, ProstaRexâ and GiveRexâ product candidates. The master cell banks are stored under contract to McKesson Bioservices in Rockville, MD. We are dependent upon foreign operations of United Therapeutics. For further details, please refer to the following "Risk Factors": "WE RELY ON OUR STRATEGIC RELATIONSHIP WITH UNITED THERAPEUTICS" and "WE ARE IN THE EARLY STAGES OF PRODUCT CANDIDATE DEVELOPMENT. OUR PRODUCT CANDIDATES MAY NOT BE EFFECTIVE AT A LEVEL SUFFICIENT TO SUPPORT A PROFITABLE BUSINESS VENTURE. IF THEY ARE NOT, WE WILL BE UNABLE TO CREATE MARKETABLE PRODUCT CANDIDATES AND WE WILL HAVE TO CEASE OPERATIONS".

C. ***Organizational structure***

Control of ViRexx

We have one subsidiary named AltaRex Medical Corp. AltaRex is wholly owned by us and was incorporated under the laws of the Province of Alberta, Canada.

AltaRex has one wholly-owned subsidiary, AltaRex U.S., Corp., incorporated under the laws of Delaware, U.S.

We carry on our OvaRex® MAb business directly through AltaRex.

D. ***Property and equipment***

We lease our head office space in Edmonton, Alberta. The terms of the premises leased are as follows:

Annual base rent:	$109,263.00
Term expires:	May 31, 2011
Square footage:	13,244

No individual lease is deemed to be material. We believe that the physical facilities we lease are adequate to conduct our business during the next 12 months.

We have headquarters and laboratory space in Edmonton, Alberta. Our facilities include a 3-year-old office and laboratory space, which we consider to be world class and to represent a significant value to us. The facility includes offices, wet laboratories, and associated equipment. We also have access to the University of Alberta virus containment laboratory and animal research facility. Preferential privileges are accorded to us such as access to facilities and contact with key individuals, as a result of the present and past association of the senior corporate officers with the University of Alberta and the present contractual arrangements of technology transfer between the University of Alberta and us.

Property and equipment are described at cost less accumulated amortization in the financial statements. Amortization is provided for by using the declining balance method at the following annual rates:

Laboratory equipment	20%
Office, furniture and equipment	20%
Computer equipment	30%
Computer software	100%

Leasehold improvements are amortized over the term of the lease.

Item 5. Operating and Financial Review and Prospects

Management's Discussion and Analysis

The following discussion and analysis of our results of operations and liquidity and capital resources should be read in conjunction with our financial data and the financial statements and the related notes thereto included elsewhere herein. Unless otherwise specified, all references in this registration statement as a "fiscal year" or "year" of ViRexx refer to a twelve month financial period ended December 31.

We have prepared our Consolidated Financial Statements in accordance with GAAP. Canadian GAAP differs in certain material respects from U.S. GAAP. For a discussion of the principal differences between Canadian GAAP and U.S. GAAP as they pertain to us, see Note 16 to our audited Consolidated Financial Statements included elsewhere in this Form 20-F. Note 16 to our Consolidated Financial Statements also provides a reconciliation of our Consolidated Financial Statements to United States Generally Accepted Accounting Principles.

Critical Accounting 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 the Corporation's consolidated financial statements. The following description of critical accounting policies, judgments and estimates should be read in conjunction with our December 31, 2004 consolidated financial statements.

Acquired Intellectual Property

At September 30, 2005, our acquired intellectual property rights had a net book value of $32.6 million related to the intellectual property acquired in the acquisition of AltaRex in December 2004. The intellectual property consists of an Exclusive Agreement with Unither Pharmaceuticals Inc. ("Unither"), a wholly owned subsidiary of United Therapeutics, for the development of five monoclonal antibodies, including OvaRex® MAb, our lead product candidate in late stage development for the treatment of ovarian cancer.

The intellectual property was recorded as an asset as required under Canadian GAAP, and is being amortized on a straight-line basis over its estimated useful life of thirteen years. We adopted the provisions of CICA 3063 “Impairment of Long-Lived Assets” and test the recoverability of long-lived assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We record an impairment loss in the period when it is determined that the carrying amount of the assets 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. Changes in any of these management assumptions could have a material impact on the impairment of the assets.

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 $33.2 million associated with the AltaRex acquisition is reflected as a reconciling item in the December 31, 2004 consolidated financial statements, footnote 16, United States Accounting Principles, which reconciles Canadian GAAP to U.S. GAAP.

Change in Accounting Policy

Effective January 1, 2002, we adopted the recommendations of the Canadian Institute of Chartered Accountants (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, we elected to retroactively adjust retained earnings without restatement. On January 1, 2004, we increased the deficit by $0.7 million and increased contributed surplus by the same amount.

A. ***Operating results***

Financial Highlights

We recorded a net loss for the year ended December 31, 2003 of $1,383,562 or $0.15 per share compared to a net loss of $1,260,472 or $0.14 per share for the year ended December 31, 2002. The increase in the loss for 2003 compared to 2002 is attributed to an increase in employees and advancement of the Company’s development programs.

We recorded a net loss for the twelve months ended December 31, 2004 of $3,657,760 or ($0.14) per share, as compared to a net loss of $1,383,562 or ($0.15) per share for the year ended December 31, 2003. The expenditure increase is due to increased preclinical, potential product development, clinical trial activity and additional costs and resources associated with operating as a public company. In 2004, we completed preclinical activities and initiated a Phase I clinical trial for Occlusin™ Injection and accelerated preclinical activity (including manufacturing) for HepaVaxx B.

We recorded a net loss for the nine months ended September 30, 2005 of $5,716,701 or ($0.10) per share, as compared with a net loss of $2,306,190 or ($0.09) per share for the corresponding period ended September 30, 2004. The expenditure increase is primarily attributable to an increase in preclinical, potential product development and clinical trial activity. In the third quarter of 2005, the Company continued enrollment in the Occlusin™ Injection Phase I clinical trial and manufactured clinical grade material for HepaVaxx B.

Expenses

Government Assistance and Research and Development

Research and development expenses for the year ended December 31, 2003, totaled $383,073, an increase of $111,435 from the $271,638 incurred for the year ended December 31, 2002. The increase in research and development expenses is due to:

Increase in number of staff members and general cost increases related to staff	$	151,641
Preparation of Occlusin™ 50 Injection preclinical activities		98,885
Increase in research and development tax credits		(65,061)
Increase in offsetting government assistance		(74,030)
	$	111,435

Research and development expenses for the year ended December 31, 2004, totalled $1,796,680, an increase of $1,413,607 from the $383,073 incurred for the year ended December 31, 2003. The increase in research and development expenses is due to:

Increase in number of staff members and general cost increases related to staff	$	77,710
Use of third party consultants to accelerate HepaVaxx B preclinical activities (initial manufacturing); and		680,431
Completion of Occlusin™ 50 Injection preclinical activities (including manufacturing) and initiation of the Phase I clinical trial (costs associated with contract research organization and regulatory filing).		575,947
Other		79,519
	$	1,413,607

Research and development expenses for the nine months ended September 30, 2005, totaled $3,279,150, an increase of $2,100,887 from $1,178,263 in research and development expenses incurred for the corresponding period ended September 30, 2004. The increase in research and development expenses was due to:

Manufacturing of clinical material for the HepaVaxx B Phase I trial	$	530,640
Increase in number of staff members and general cost increases related to staff		442,561
Use of third party consultants to accelerate HepaVaxx B preclinical activities		130,662
Completion of Occlusin™ 50 Injection preclinical activities (including manufacturing) and ongoing Phase I clinical trial		184,711
Decrease in offsetting government assistance		499,430
Expansion of intellectual property portfolio		261,277
Stock-based compensation expense recorded for options granted		21,887
Other		29,719
	$	2,100,887

Prior to commercialization, ViRexx expects to continue to incur substantial research and development expenditures. The following table outlines projected expenditures for each product candidate for the fiscal years 2005 and 2006:

				Projected Expenditures				
	YTD 2005	Quarter 4[1] - 2005	2005 Total	Quarter 1[2] 2006	Quarter 2[3] 2006	Quarter 3[4] 2006	Quarter 4[5] - 2006	2006 Total
Chimigen™	2,158,099	811,159	2,969,258	796,723	1,401,815	985,889	1,514,179	4,698,606
T-ACT™	810,021	847,930	1,657,951	819,274	924,639	1,162,176	1,183,680	4,089,769
AIT™	311,030	245,259	556,289	231,039	1,509,298	1,009,739	787,330	3,537,406
Total Projected Research & Development Expenditures	3,279,150	1,904,348	5,183,498	1,847,036	3,835,752	3,157,804	3,485,189	12,325,780

Notes:

(1) Proposed Milestones for 2005

Q4 2005
-Commence HepaVaxx B Phase I Clinical Trial
-Complete Occlusin™ 50 Injection Phase I liver cancer clinical trial
-Select HepaVaxx C clinical candidate

(2) Proposed Milestones for 2006

Q1 2006
-Tech transfer to European facility for OvaRex initiated
-Enrollment for OvaRex Phase III completed
-Results for OvaRex Phase II a trial
-GMP manufacturing for Occlusin 50 initiated

(3) Q2 2006

-GMP manufacturing for Hep B initiated for Phase II trial in Q4
-Phase I trial for Occlusin Device initiated

(4) Q3 2006

-Phase Ib trial on patients for Hep B initiated
-GMP manufacturing for OvaRex in Europe initiated

(5) Q4 2006

-Phase II trial for Hep B initiated
-Phase Ib for Occlusin 50 initiated
-Pivotal trial for Occlusin Device initiated

A further description of our three major research and development projects are as follows:

Our most advanced programs include drug candidates for the treatment of ovarian cancer, chronic Hepatitis B & C and solid tumours. We have three technology platforms: the antibody-based immunotherapy (“AIT”), Chimigen™, and the T-ACT™ platforms. The AIT™ and Chimigen™ platforms are designed to stimulate the immune system to recognize and remove certain cancers and chronic viruses. These three technology platforms are referred to above.

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AIT™ Platform Technology

Our monoclonal antibody immunotherapies were licensed in April 2002 to United Thereapeutics. OvaRex® MAb is the lead product candidate and is currently being studied in two identical Phase III clinical trials in advanced ovarian cancer (Stage III and IV) patients. These studies, which commenced in January 2003, are being conducted at approximately 60 centers throughout the United States and will enroll up to 354 patients. As of September 30, 2005 approximately 310 patients have been enrolled in these trials. These studies could take up to two years to complete following full enrollment, depending on how long it takes for 236 patients to relapse. United is responsible for all costs of all clinical trials. We are incurring no costs and have no responsibility to incur costs for any OvaRex clinical trials in North America. Approximately $29.6 million from inception to date has been incurred on OvaRex development. We anticipate that by mid-2007 we should receive our first milestone payment from Unither in the amount of $2,000,000 (USD). In order to scale up production in anticipation of selling OvaRex in Europe, we must prepare for technology transfer testing and manufacturing. We anticipate that the total costs expended by us in 2005 for this purpose will be $516,730 and the total costs expended in 2006 for this purpose will be $3,537,406.

T-ACT™ Platform Technology

On September 23, 2004, we received authorization from Health Canada to initiate a Phase I clinical trial for Occlusin™ Injection in liver cancer patients. The Phase I trial is being conducted at the Toronto General Hospital of the University Health Network under the direction of Dr. Morris Sherman. We anticipate 12 patients with primary liver cancer will be enrolled in the study. The trial is designed to examine the safety of Occlusin™ Injection when used as an embolizing agent as part of transcatheter arterial chemoembolization (“TACE”) procedures for the treatment of cancer of the liver. We anticipate total expenditures of $1,557,691 in 2005 and a total of $4,089,769 during 2006 to complete the Phase I clinical trial and commence a Phase Ib clinical trial for Occlusion.

Chimigen™ Platform Technology

HepaVaxx B is a Chimigen™ therapeutic vaccine developed by us for the treatment of chronic hepatitis B viral infections. Application to commence Phase I clinical trials is expected in the fourth quarter of 2005.

On April 20, 2005, we entered into an agreement with a contract manufacturer, Protein Sciences Corporation (“PSC”) of Meriden, Connecticut, for the production of sufficient quantity of cGMP HepaVaxx B material for a Phase I clinical trial. We initiated the manufacturing in the second quarter of 2005.

We are currently evaluating potential clinical trial sites and developing, in consultation with potential investigators, a protocol for a Phase I clinical trial in healthy patients. We anticipate filing a CTA with Health Canada in the fourth quarter of 2005. We anticipate that in the fourth quarter of 2005 we will expend $811,159 in initiating the Phase I clinical trial with all of its attendant costs for a total amount of $2,723,163 in 2005. Throughout 2006, we anticipate expending $4,698,606 on cGMP manufacturing for the Hepatitis B Phase II clinical trial in the fourth quarter of 2006, finalizing the clinical candidate selection for Hepatitis C and commencing a Hepatitis Phase II clinical trial on patients by the fourth quarter of 2006.

Project Risks

Due to the inherent uncertainties involved in the drug development, regulatory review and approval processes, the anticipated completion dates, the cost of completing the research and development and the period in which material net cash inflows from these projects are expected to commence are not known or estimable. There are many risks and uncertainties associated with completing the development of the unapproved product candidates discussed above, including the following:

- Products may fail in clinical studies;
- Hospitals, physicians and patients may not be willing to participate in clinical studies;
- Hospitals, physicians and patients may not properly adhere to clinical study procedures;
- The drugs may not be safe and effective or may not be perceived as safe and effective;
- Other approved or investigational therapies may be viewed as safer, more effective or more convenient;
- Patients may experience severe side effects during treatment;
- Patients may die during the clinical study because their disease is too advanced or because they experience medical problems that are not related to the drug being studied;
- Patients may not enrol in the studies at the rate we expect;
- The FDA, HPB and foreign regulatory authorities may delay or withhold approvals to commence clinical trials or to manufacture drugs;
- The FDA, HPB and foreign regulatory authorities may request that additional studies be performed;
- Higher than anticipated costs may be incurred due to the high cost of contractors for drug manufacture, research and clinical trials;
- Drug supplies may not be sufficient to treat the patients in the studies; and
- The results of preclinical testing may cause delays in clinical trials.

If these projects are not completed in a timely manner, regulatory approvals would be delayed and our operations, liquidity and financial position could suffer. Without regulatory approvals, we could not commercialize and sell these product candidates and, therefore, potential revenues and profits from these product candidates would be delayed or impossible to achieve.

Government assistance for the twelve months ended December 31, 2003 totaled $154,780, an increase of $74,030 from the $80,750 recorded for the year ended December 31, 2002. Government assistance related to Industrial Research Assistance Program (“IRAP”) grants from the National Research Council of Canada (“NRC”).

Government assistance for the twelve months ended December 31, 2004 totalled $864,430, an increase of $709,650 from the $154,780 recorded for the year ended December 31, 2003. Government assistance related to Industrial Research Assistance Program (“IRAP”) grants from the National Research Council of Canada (“NRC”) and a technology commercialization award from Alberta Heritage Foundation for Medical Research (“AHFMR’).

The detail of government assistance is as follows:

	For twelve months ended December 31, 2004	For twelve months ended December 31, 2003	For twelve months ended December 31, 2002
	$	$	$
IRAP	364,430	154,780	80,750
AHFMR	500,000	-	-
	864,430	154,780	80,750

Government assistance for the nine months ended September 30, 2005 totaled $45,000, a decrease of $499,430 from $544,430 recorded for the corresponding period ended September 30, 2004. Government assistance related to Industrial Research Assistance Program ("IRAP") grants from the National Research Council of Canada and a technology commercialization award from the Alberta Heritage Foundation for Medical Research ("AHFMR").

The detail of government assistance is as follows:

	For nine months ended Sept 30, 2005	For nine months ended Sept 30, 2004
	$	$
IRAP	45,000	364,430
AHFMR	-	180,000
	45,000	544,430

Corporate Administration & Marketing

General and administrative expenses for the year ended December 31, 2003 totaled $892,036, an increase of $76,102 from the $815,934 recorded for the year ended December 31, 2002. The increase of general and administrative expenses is due to:

Increase in number of staff members and general cost increases related to staff	$	52,115
Stock-based compensation expense recorded for options granted		211,300
Disposal of property and equipment including decrease in related expenses		(187,313)
	$	76,102

General and administrative expenses for the year ended December 31, 2004 totalled $1,887,711, an increase of $995,675 from the $892,036 recorded for the year ended December 31, 2003. The increase of general and administrative expenses is due to:

Consulting and professional fees associated with investor relations and corporate communication activities	$	130,000
Increase in number of staff members and salary increases awarded to staff		300,000
Expenditure of patent & trademarks		514,000
Elevated insurance premiums and expanded insurance coverage (director & officer insurance)		45,000
Other		6,675
	$	995,675

General and administrative expenses for the nine months ended September 30, 2005, totaled $2,325,743, an increase of $1,190,767 from $1,134,976 in general and administration expenses recorded for the corresponding period ended September 30, 2004. The increase in general and administrative expenses was due to:

Consulting and other costs associated with investor relations and corporate communication activities	$	405,670
Increase in number of staff members and general cost increases related to staff		199,962
Costs related to the acquisition of AltaRex Medical Corp.		162,000
Elevated insurance premiums and expanded insurance coverage (director & officer insurance)		45,000
Stock-based compensation expense recorded for options granted		305,659
Other		72,476
	$	1,190,767

Stock-based Compensation

Effective January 1, 2004, we became subject to the additional requirements of the CICA relating to stock-based compensation. The new standard requires that all stock option awards be valued on the date of grant using the fair value method and be expensed directly to the income statement. In accordance with the transition rules, we recorded an adjustment to the opening 2004 deficit in the amount of $734,773, representing the expense for the 2002 and 2003 fiscal years. Stock-based compensation expense for the year ended December 31, 2003 totalled $211,300, an increase of $211,300 from the $0 recorded for the year ended December 31, 2002. Total stock-based compensation expense for the year ended December 31, 2004 totalled $385,729, an increase of $174,429 from the $211,300 recorded for the year ended December 31, 2003. Stock-based compensation expense for the nine months ended September 30, 2005 totalled $324,044, which reflects the vested portion of the 380,000 options granted during 2005 and the continuing amortization of options granted in 2004..

Depreciation and Amortization

Depreciation and amortization expense for the year ended December 31, 2003 totalled $31,596, an decrease of $5,905 from the $37,501 recorded for the year ended December 31, 2002.

Depreciation and amortization expense for the twelve months ended December 31, 2004 totalled $71,348, an increase of $39,752 from the $31,596 recorded for the year ended December 31, 2003. On November 11, 2004, we capitalized $187,841 for the purchase of equipment and renovation of facilities related to a move to new premises.

The increase in depreciation and amortization expense is due to additional fixed assets purchased over the course of 2004.

Depreciation and amortization expense for the nine months ended September 30, 2005 totaled $2,088,113, an increase of $2,053,817 from $34,296 recorded for the corresponding period ended September 30, 2004.

The increase in depreciation and amortization expense is due to the intellectual property acquired in December 2004 being amortized and charged to operations. Also, additional fixed assets were purchased over the course of the last twelve months.

Intellectual Property

Patent and trademark expenses for the year ended December 31, 2003 totalled $74,824, a decrease of $19,809 from the $94,633 recorded for the year ended December 31, 2002.

Patent and trademark expenses for the twelve months ended December 31, 2004 totalled $271,384, an increase of $196,560 from the $74,824 recorded for the year ended December 31, 2003.

We will continue to incur significant patent costs during the twelve months of 2005 and in future years to protect our technologies. We anticipate third party intellectual property costs of approximately $500,000 in 2005. All 2005 patent costs will be funded from working capital.

Patent and trademark expenses for the nine months ended September 30, 2005 totalled $349,873 compared with $243,165 for the corresponding period ended September 30, 2004. This amount is included under the caption of research and development expenses.

We will continue to incur significant patent costs during the remainder of 2005 and in future years to protect our technologies. We anticipate third party intellectual property costs of approximately $500,000 in 2005. All 2005 patent costs will be funded from working capital.

Capital Expenditures

Capital expenditures on property and equipment were $94,617 for the year ended December 31, 2003 compared to $97,222 for the year ended December 31, 2002.

Capital expenditures on property and equipment were $403,364 for the twelve months ended December 31, 2004 compared to $94,617 for the year ended December 31, 2003.

Capital expenditures on property and equipment were $130,505 for the nine months ended September 30, 2005 compared with $55,119 for the corresponding period ended September 30, 2004.

Currently we have no significant commitments for property and equipment expenditures and estimate that all capital expenditures will be funded from working capital and/or capital leases.

B. Liquidity and capital resources

We currently have no contributing cash flows from operations. As a result, we rely on external sources of financing, such as the issue of equity or debt securities, the exercise of options or warrants, investment income and milestone and royalty payments from license and collaboration agreements.

On April 14, 2004, ViRexx completed a public offering of 11,000,000 units at a price of $0.80 per unit for net proceeds of $8,000,132 after related issue expenses of $799,868. Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitled the holder to acquire one common share at an exercise price of $1.00 per share until October 14, 2005. In connection with this transaction, ViRexx issued 400,000 common shares to the agent.

On April 23, 2004, ViRexx issued 2,000 common shares from the exercise of warrants for proceeds of $2,000.

On May 3, 2004, ViRexx issued 2,500 common shares from the exercise of warrants for proceeds of $2,500.

On June 7, 2004, ViRexx issued 1,000 common shares from the exercise of warrants for proceeds of $1,000.

On December 10, 2004, we issued 26,257,759 common shares in connection with the acquisition of AltaRex. For each share owned, AltaRex shareholders received one half of one common share of ViRexx. Sixty percent of the common shares of ViRexx received by AltaRex shareholders are freely tradable and the remaining forty percent were subject to a hold period until June 10, 2005.

On December 21, 2004, we received approval for a Normal Course Issuer Bid allowing us to repurchase up to 2,663,823 common shares during the period December 23, 2004 to December 22, 2005, at market price at the time of the purchase. For the period December 23, 2004 to December 31, 2004, we did not repurchase any common shares.

At December 31, 2004, we had 53,276,477 common shares outstanding. The number of stock options and warrants outstanding at December 31, 2004 is 6,369,168 and 12,543,095 respectively and could generate proceeds of $18,448,389 if exercised.

At December 31, 2004, our cash and cash equivalents totalled $9,462,988 as compared to $2,708,599 at December 31, 2003. Our net cash used in operating activities totalled $3,266,213 for the twelve months ended December 31, 2004 as compared to $575,252 for the twelve months ended December 31, 2003 and reflects our use of cash to fund our net operating losses and the net changes in non-cash working capital balances.

On September 7, 2005 the Company completed a brokered private placement of 4,035,665 units for gross proceeds of $4,035,665. Each unit consists of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of ViRexx at a price of Cdn $1.20 for a period of 2 years. The broker for the private placement received cash of 7% of the gross proceeds and 403,567 broker warrants as a commission. Each broker warrant entitles the broker to acquire one common share of the Company for $1.20 per share until September 9, 2007.

At September 30, 2005, the Company’s cash and cash equivalents totaled $8,319,266 as compared with $9,462,988 at December 31, 2004. The Company’s net cash used in operating activities amounted to $4,817,845 for the nine months ended September 30, 2005 and reflects the Company’s use of cash to fund its net operating losses and the net changes in non-cash working capital balances. During the nine months ended September 30, 2005, the Company raised $3,179,195 from the completion of the private placement, exercise of warrants and stock options net of share issuance and normal course issuer bid costs.

We have no significant exposure to changes in interest rates and carries small amounts of operating capital in U.S. denominated instruments. We do not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in foreign exchange rates.

At September 30, 2005, ViRexx had 58,608,545 shares outstanding. Since then 236,000 shares have been issued pursuant to the exercise of warrants for proceeds of $236,000 and warrants for 9,886,720 shares have expired.

Our future funding needs vary depending on a number of factors, including the progress of our research and development programs, the number and breadth of these programs, the results of preclinical studies and clinical trials, the cost, timing and outcome of the regulatory process, the establishment of collaborations, the cost of preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, the status of competitive products and the availability of other financing.

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We will need to raise substantial additional funds through equity, debt financings, or collaborative arrangements with corporate partners 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 favourable terms.

We are a biotechnology company focused on the development of novel therapeutic product candidates for the treatment of certain cancers and chronic viral infections. We have three technology platforms that include product candidates in the clinical stage of development, as well as several preclinical product candidates. We will need to invest substantial amounts of cash to develop and potentially commercialize the product candidates.

Since inception, we have not had any material off-balance sheet arrangements, and inflation has not had a material effect on operations. There were no material commitments for capital expenses as of September 30, 2005.

The following table presents the unaudited selected financial data for each for the last 8 quarters ended December 31, 2004:

	First 9 Months Ended September 30, 2005			Year Ended December 31, 2004				Year Ended December 31, 2003		
	Q1	Q2	Q3	Q1	Q2	Q3	Q4	Q2	Q3	
Government assistance	-	45,000	-	261,525	193,936	88,969	320,000	79,934	15,066	67,
Net Earnings (Loss)	(1,702,833)	(2,008,677)	(2,005,191)	(489,405)	(853,798)	(792,373)	(1,522,184)	(643,604)	(271,165)	(469,
Basic and diluted earnings (loss) per share	(0.03)	(0.04)	(0.04)	(0.03)	(0.03)	(0.03)	(0.05)	(0.07)	(0.03)	(

Our quarterly results have fluctuated primarily as a result of the level of operational activities and the availability of resources to fund operational activities.

For the three months ended December 31, 2004, we reported a consolidated net loss of $1,522,184 or $0.05 per common share compared to a consolidated loss of $1,383,562 or $0.15 for the twelve months ended December 31, 2003. The increase in the annualized consolidated loss resulted primarily from increased research & development activities associated with on-going Phase I clinical trial and manufacturing activities.

We are a research and development company, with our primary focus being the development and commercialization of product candidates. As such, our focus is not earnings but rather that we have sufficient resources to fund our development programs.

The quarterly results have varied primarily as a result of availability of resources to fund operations and the timing of significant expenses incurred in the development of our product candidates (manufacturing, clinical trials).

Outlook

We are a research and development company, with our primary focus being the development and commercialization of our product candidates. As such, our focus is not earnings but rather that we have sufficient resources to fund our development programs. We expect to continue to incur operating losses in 2005 and future years as the development of our drug programs continue. Net research and development costs are expected to continue to increase in 2005 from those incurred in 2004 as we advance the development of Occlusin™ Injection, HepaVaxx B and HepaVaxx C therapeutic vaccines.

As of September 30, 2005, we had $8,319,266 in cash equivalents and short-term investments as compared with $9,462,988 at December 31, 2004. As such, we believe we have adequate financial resources to fund planned operations through the third quarter of 2006.

Over the longer term, we expect that we will require additional financing and as such plans to raise funds from time to time through either the capital markets or strategic partnering initiatives. Funding requirements may vary depending on a number of factors, including the progress and results of the pre-clinical studies and human clinical trials, regulatory approvals, and competing technological and market developments. Depending on the results of the research and development programs and availability of financial resources, we may accelerate, terminate, cut back on certain

areas of research and development, or commence new areas of research and development.

C. ***Research and development, patents and licenses, etc.***

Research and Development

The research and development costs of us are expensed as they are incurred. Under Canadian generally accepted accounting principles, development costs should be capitalized if certain criteria are met. Companies with products in clinical trials do not necessarily meet these criteria. Our development costs do not meet the following two criteria: (i) the technical feasibility of the product candidate or process has been established; and (ii) the future market for the product candidate or process is clearly defined. With regard to (i), our strategic partner, United Therapeutics, continues enrolment of a Phase III clinical study for OvaRex® MAb and we continue enrolment of a Phase I clinical study for Occlusin™ Injection. Until the appropriate clinical studies have been completed, the technical feasibility of these product candidates will not be known. With regard to (ii), the future market for the product candidates will not be clearly defined until the completion of the clinical studies. Clinical studies not only determine the technical feasibility of the product candidate, but also provide information regarding the proper use of the product candidate and, therefore, the future market. Once the feasibility is determined a New Drug Application or Biologics License Application, or equivalent, is made to the appropriate regulatory body. Regulatory approval is required before the product candidate can be marketed. For these reasons, our development costs are expensed and not capitalized.

Patents

In general, we pursue a policy of obtaining patent protection both in the U.S. and in selected foreign countries for subject matter considered patentable and important to our business. In addition, a portion of our proprietary position is based upon the use of technology and products we have licensed from others, including the master cell bank licensed from Biomira Inc. for OvaRex® MAb. The license agreement generally requires us to pay royalties upon commercialization of products covered by the licensed technology. We currently have an exclusive license from the University of Alberta to one issued patent, issued in the U.S. as well as 2 patent applications**.**

ViRexx or inventors who have assigned their patent applications to us own 46 issued and 141 pending patent applications worldwide. Of these, 22 are pending U.S. patent applications for our therapeutic product candidates and processes. These patent applications cover various aspects of our core technology product candidates, processes, and the methods for our production and use. We will continue to aggressively protect our technology with new patent filings with the intent of further extending our patent coverage.

The following patent families with issued patents and pending patents are considered significant to us:

	Issued	Pending
Altered Immunogenicity	2	7
Brevarex	4	24
Dendritic Cells	1	13
Multi-Epitopic	30	11
Photoactivation	2	4
ProstaRex	2	6
Tactin	3	9
Occlusin	1	14
Chimigen	0	3
	45	91

There are no issued patents, as yet, for Combination Therapy and Chimigen.

Trademarks And Trade Names

We rely upon our Canadian trade mark registrations to protect our technology. These registrations include ViRexxâ,ViRexx Power to Cure™, AIT®, AltaRex®, BrevaRex®, GivaRex®, IRT®, Occlusin™, OvaRex®, ProstaRex® and T-ACT®. In the United States, we have registered trademarks for ViRexxâ, AIT®, AltaRex®, BrevaRex®, GastaRex®, GivaRex®, GynaRex®, HepaRex®, MylaRex®, OvaRex®, PleuraRex® and ProstaRex® as well as pending applications for the brand names related to its other developing product candidates including LivRex™, Occlusin™ and ViRexx Power to Cure Design. In addition, we have received registration and have pending applications for registration of our marks and names in other jurisdictions including Australia, Austria, the European Community, Germany, Hungary, Japan, Norway and Switzerland.

We currently have pending trademark applications in Canada for Hepclusin™ and Chimigen™.

D. ***Trend information***

We have not had production or sales and have no inventory of product candidates.

E. ***Off-Balance Sheet Arrangements***

We have no off-balance sheet arrangements

F. ***Tabular Disclosure of Contractual Obligations***

The long-term debt and obligations under capital leases and the operating obligations are as follows:

	Total	< 1 year[(1)]	1 - 3 years	> 3 years
Convertible debentures	234,130	234,130	-	-
Long term debt and obligations under capital leases	-	-	-	-
Operating lease obligations	727,592	109,263	338,274	280,055[(2)]
Purchase obligations	-	-	-	-
Milestone payments				500,000[(3)]
Total contractual obligations	961,722	343,393	338,274	780,055

Notes:

(1) Lease on laboratory and offices of $109,263 per annum until May 31, 2007

(2) Lease on laboratory and offices of $115,885 per annum from June 1, 2007 to May 31, 2011

(3) License agreement milestone payments to third party upon commencement of Phase III clinical trials for each product candidate

G. ***Safe Harbour***

Not applicable.

Item 6. **Directors, Senior Management and Employees**

A. ***Directors and senior management***

Each director is generally elected by a vote at the annual meeting of shareholders to serve for a term of one year. Each executive officer will serve until his/her successor is elected or appointed by the Board of Directors or his/her earlier removal or resignation from office. There are no family relationships between any of our executive officers and our directors. The following table lists our directors and senior management together with their respective positions as of November 1, 2005:

Name	**Position and Offices and Starting Date**
Dr. Antoine A. Noujaim	Former Chairman, Former Chief Executive Officer and a Director since December 22, 2003 (on extended medical leave since October 24, 2005)
Dr. Lorne J. Tyrrell	Chief Executive Officer since November 1, 2005 and Chief Scientific Officer and a Director since December 22, 2003
Jacques R. Lapointe	Director since December 9, 2004
Bruce D. Brydon	Director since December 9, 2004
Thomas E. Brown	Director since December 22, 2003
Dr. Jean Claude Gonneau	Director since April 14, 2004
Douglas Gilpin, CA	Director since April 14, 2004; Acting Chairman of the Board since October 24, 2005,
Macaraig (Marc) Canton	President and Chief Operating Officer since February 1, 2005, Acting Chief Financial Officer since November 2, 2005
Michael W. Stewart	Vice President, Operations, Oncology since December 22, 2003
Dr. Rajan George	Vice President, Research & Development, Infectious Diseases since December 22, 2003
Dr. Andrew Stevens	Vice President, Clinical and Regulatory Affairs since December 22, 2003
Dr. Irwin Griffith	Vice President, Drug Development, Infectious Disease since April 5, 2004

Antoine A. Noujaim, PH.D. D.Sc.	Dr. Noujaim founded AltaRex in 1995, and served as Chairman of the Board of Directors, Chief Scientific Officer, and President and Chief Executive Officer. In 1985, Dr. Noujaim co-founded Biomira Inc. ("Biomira"), a biotechnology company listed on the Toronto Stock Exchange under the symbol "BRA" and from 1993 to 1995 he served as President of a subsidiary unit, Biomira Research Inc. In addition, he acted as Senior Vice President of the Immunoconjugate Division of Biomira prior to 1994. Dr. Noujaim is Professor Emeritus of the University of Alberta and a director of a number of biotechnology companies. Dr. Noujaim co-founded ViRexx Research Inc. in September 2001, a predecessor corporation to ViRexx. Dr. Noujaim has served as an officer or chairman of various scientific organizations, editorial boards and national scientific committees, has authored more than 200 publications, and is an inventor on more than 100 issued patents and patent applications. He is the recipient of a number of national and international awards for contributions in the field of antibody-mediated therapeutics. Since October 24, 2005 Dr. Noujaim has been on extended medical leave but is still acting in a consulting capacity.
Lorne J. Tyrrell, Ph.D. M.D.	Dr. Tyrrell, a virologist of international repute, the former Dean of the Faculty of Medicine and Dentistry at the University of Alberta and the Director of the Glaxo Heritage Research Institute. His exceptional contributions to medical research have been recognized by his peers through awards such as the ASTech Award for Innovation and Science in Alberta, the Rutherford Award as "Outstanding Teacher for Undergraduate Students", the Kaplin Award for Excellence in Research, and the Prix Galien Canada Medal for Research for his groundbreaking work on antiviral drugs for hepatitis B. In 2000, Dr. Tyrrell was awarded the gold medal by the Canadian Liver Foundation and the Canadian Association for the Study of Liver, and the Alberta Order of Excellence from the Province of Alberta. In September 2001, Dr. Tyrrell co-founded ViRexx Research Inc. along with Dr. Noujaim. In 2002, he was appointed an officer of the Order of Canada by the Government of Canada. In addition to authoring over 200 publications, he played a pivotal role in the development of the antiviral agent Lamivudine presently marketed by Glaxo as Epivir® for the treatment of HBV and HIV. Dr. Tyrrell became Chief Executive Officer of ViRexx on November 1, 2005.

Jacques R. Lapointe	Mr. Lapointe has been a Director of ViRexx since December 9, 2004. He is President and Chairman of the Board of ConjuChem Inc. and recent President and Chief Operating Officer of BioChem Pharma, Inc. (Montreal, Quebec). Mr. Lapointe has more than 30 years of leadership and operational experience with global biotechnology and pharmaceutical organizations. Prior to BioChem Pharma, Mr. Lapointe was with Glaxo Wellcome plc for 12 years and held the positions of President and CEO of Glaxo Canada as well as Glaxo Wellcome U.K. His earlier experience included operations, marketing and sales, in positions at Johnson & Johnson Canada. Mr. Lapointe is a former Chairman of the Pharmaceutical Manufacturers Association of Canada (PMCA), now known as Canada's Research-based Pharmaceutical Companies (Rx&D). In 2003, Mr. Lapointe became President and CEO of ConjuChem Inc.
Bruce D. Brydon	Mr. Brydon has been a Director of ViRexx since December 9, 2004. Mr. Brydon is the former President and Chief Executive Officer of Biovail Corporation. He has more than 27 years of pertinent operational experience in biotechnology and pharmaceuticals, particularly in key industry areas such as registration and approval processes in the U.S., Canada and Europe, product licensing, and capital raising in the U.S. and Canadian debt/equity markets. Prior to Biovail, Mr. Brydon served as President and Chairman of Boerhinger Mannheim's Canadian operations and as President of Beirsdorf AG's Canadian health care and industrial business entities.
Thomas E. Brown	Mr. Brown has been a director of ViRexx since December 22, 2004. Mr. Brown is the Founder, Director and former President of Somagen Diagnostics Inc., ("Somagen") an Edmonton-based, privately held sales and marketing company in the clinical laboratory diagnostic testing industry. Somagen's clinical diagnostic product lines are provided by some of the world's leading manufacturers in the areas of general chemistry, special chemistry, point of care, immunology, microbiology and cellular pathology. Somagen is currently the largest private clinical diagnostics company in Canada with sales, service and technical support in all regions of the country.
Dr. Jean Claude Gonneau	Dr. Gonneau has been a director of ViRexx since April 14, 2004. Dr. Gonneau is currently the General Manager of SG Cowen, Europe SAS, an investment banking institution. He has more than 25 years experience working in the financial markets in Europe and North America and maintains responsibility for the European operations of SG Cowen. Prior to his appointment as General Manager, he was Managing Director of SG Cowen. Dr. Gonneau is a director of numerous publicly traded companies and lives in London, England.

Douglas Gilpin, CA	Mr. Douglas Gilpin has been a director of ViRexx since April 14, 2004. Mr. Gilpin is a Chartered Accountant with more than 30 years of business advisory and consultancy experience. He was a partner with KPMG LLP from 1981 until his retirement from the firm in 1999. His practice focused on business advisory and assurance and involved work with numerous companies in the biotechnology field. Since October 24, 2005, Mr. Gilpin has been Acting Chairman of ViRexx
Macaraig (Marc) Canton, B.Sc., MBA	Mr. Canton has over 23 years of pharmaceutical and research experience. He joined ViRexx from Biovail Corporation where for 9 years he held key positions in multiple areas of the business in Canada and the United States, including marketing & sales, contract research and business development where he was responsible for all deal-related activities, including in-licensing and out-licensing products and technologies, partnering, and securing clinical trial contracts. Since November 2, 2005, Mr. Canton has been Acting Chief Financial Officer of ViRexx pending identification of a new Chief Financial Officer.
Michael W. Stewart, M.Sc.	Mr. Stewart has a 20-year history in the area of platelet biology and hematology. Mr. Stewart obtained his Master of Science degree in Experimental Medicine from the University of Alberta in 1982. In his capacity as Laboratory Scientist for the Department of Laboratory Medicine at Edmonton's Capital Health Authority (1982 - 1997), Mr. Stewart authored more than 35 publications in peer reviewed medical journals. In addition, Mr. Stewart is named as inventor of 15 issued patents and 22 patents pending. Prior to joining ViRexx, Mr. Stewart served as Vice President Research and Development for Novolytic Inc. from 1999 to 2002 and prior to that as Director of Research and Development for Thrombotics, Inc., a biotechnology company (1997 to 1999).