SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934

Date of Report: May 27, 2005
(Date of earliest event reported)

COMMON HORIZONS, INC.
(Exact name of registrant as specified in its charter)

Nevada	333-119366	72-1580195
(State or other jurisdiction of incorporation)	(Commission File No.)	(IRS Employer Identification No.)

One Gateway Center, Suite 504
Newton, MA 02458
(Address of Principal Executive Offices)

(617) 244-1616
(Registrant's telephone number including area code)

620 Tam O'Shanter
Las Vegas, NV 89109
(702) 989-0739
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT.

Subscription Agreement. On May 27, 2005, Common Horizons, Inc. (the "Company") completed the initial closing on its private placement of Common Stock to accredited investors and entered into Securities Purchase Agreements with certain accredited investors. Under these Securities Purchase Agreements, the Company sold 87 Units (each a "Unit" and collectively, the "Units"), pursuant to the terms of the Company's private placement (the "Private Placement"). Pursuant to the Private Placement, the Company is selling between 80 Units (the "Minimum Offering") and 400 Units (the "Maximum Offering"), subject to increase to 460 Units in the Company's discretion. Each Unit consists of 20,000 shares of Company Common Stock and a three year warrant to purchase 10,000 shares of Company Common Stock at a purchase price equal to $2.25 per share and is sold at a purchase price of $25,000 per Unit. In exchange for the

Units sold, the Company received cash proceeds of $1,725,000 and three investors converted the $450,000 principal amount outstanding of promissory notes issued by the Company's wholly-owned subsidiary, Novelos Therapeutics, Inc., a Delaware corporation ("Novelos"). See also the descriptions below under Items 2.01 and 3.02. A copy of the form of Securities Purchase Agreement entered into in connection with the Private Placement is annexed hereto as Exhibit 1 and incorporated herein by this reference.

In connection with the Private Placement, Novelos had previously entered into a letter agreement with vFinance Investments, Inc. as lead placement agent for the Private Placement (the "Placement Agent"). Pursuant to the letter agreement, the Placement Agent has agreed, on a best efforts basis, to assist the Company in the sale of Units. Under the letter agreement, the Company, however, reserves the right to sell up to 15% of the Units without the assistance of the Placement Agent (the "Direct Units"). As compensation for its services, the Company agrees to:

- pay the Placement Agent a fee equal to 8% of the gross proceeds derived from the sale of the Units other than Direct Units subscribed for, in cash;
- pay the Placement Agent a non-accountable expense fee equal to 2% of the gross proceeds from the sale of Units;
- issue to the Placement Agent (or its designees) a five-year warrant to purchase that number of shares of Company Common Stock equal to ten percent (10%) of the number of shares of Common Stock purchased as part of the Units sold in the Private Placement at an exercise price of $2.00 per share;
- pay due diligence fees of the Placement Agent of $10,000 and legal fees of the Placement Agent of up to $30,000; and
- issue to the Placement Agent (or its designees) 125,000 shares of Common Stock of the Company in the event the Company sells $2,000,000 of Units, and an additional 125,000 shares upon the Company's cumulative sale of $6,000,000 of Units.

Additionally, the Company agrees, within 60 days following termination of the Private Placement, to file a registration statement with the Securities and Exchange Commission ("SEC") to register the Company Common Stock issued in the Private Placement, including

shares issuable to the Placement Agent and underlying the warrants issued in the Private Placement and to the Placement Agent. For a further description of the registration rights, see the section "Registration Rights" included under Item 2.01 below. The Agreement also contains customary indemnification provisions.

ITEM 2.01 COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS.

Pursuant to the terms of the Agreement and Plan of Merger dated May 26, 2005 (the "Merger Agreement") by and among the Company, Novelos and a wholly-owned subsidiary of the Company ("Nove Acquisition"), Nove Acquisition merged with and into Novelos (the "Merger"), such that Novelos was the surviving corporation and became a wholly-owned subsidiary of the Company. The description of the terms of the Merger is qualified in its entirety by reference to the full text of the Merger Agreement, a copy of which is annexed hereto as Exhibit 2 and incorporated herein by this reference.

Merger Consideration. By virtue of the Merger, all outstanding shares of common stock of Novelos were converted into the right to receive an equal number of shares of Common Stock of the Company. In addition, each option and warrant to acquire shares of Novelos common stock was converted into the right to acquire an equal number of shares of Company Common Stock at an exercise price equal to the exercise price stated in the original option or warrant, subject in all other respects to the terms and conditions of the original options and warrants. Based on the above-described exchange ratios, on May 27, 2005, the outstanding shares of Novelos's common stock were converted into a right to receive approximately 19,093,701 shares of Company Common Stock, and outstanding Novelos options and warrants to acquire shares were converted into

options and warrants to purchase approximately 2,922,651 shares of Company Common Stock.

Private Placement. As described above under Item 1.01, on May 27, 2005, the Company also completed the initial closing (the "Initial Closing") on its Private Placement of Units to accredited investors and entered into subscription agreements with such accredited investors. In connection with the Initial Closing, the Company sold 87 Units and, therefore, issued to the accredited investors 1,740,000 shares of Common Stock and three-year warrants to purchase 870,000 shares of Company Common Stock at an exercise price of $2.25 per share. At the Initial Closing the Company also issued to the Placement Agent or its designees 125,000 shares of Company Common Stock and five-year warrants to purchase up to 174,000 shares of Common Stock at an exercise price of $2.00 per share.

Additionally, in connection with the Merger and Initial Closing, certain stockholders of the Company sold an aggregate of 4,410,000 shares of Common Stock to several purchasers and forfeited 37,500,000 shares of Common Stock, which were cancelled by the Company.

After giving effect to the Merger, the Initial Closing and the surrender of 37,500,000 shares of Common Stock, the Company had approximately 25,458,701 shares of Common Stock outstanding and had outstanding warrants, options and other rights to acquire up to 3,966,651 shares of Company Common Stock.

Registration Rights. Pursuant to the Private Placement and Merger Agreement, the Company has agreed to file a "resale" registration statement (the "Registration Statement") with the SEC on or before 60 days following the termination of the Private Placement (the "Termination Date") covering all shares of Company Common Stock issued in the Private Placement (including those shares issued to the Placement Agent or its designees and those shares underlying the warrants issued in the Private Placement and to the Placement Agent or its designees. With respect to the registration of shares sold in the Private Placement, the Company is obligated to cause the declaration of effectiveness of the Registration Statement within 180 days following the Termination Date and is obligated to pay liquidated damages to investors equal to two percent (2%) of the purchase price of the shares purchased by them for each 30-day period following such 180 days that the Registration Statement has not been declared effective. The Placement Agent and its designees have the right to have the shares of Common Stock issued to them and the shares of Common Stock underlying their warrants to be registered in the aforesaid Registration Statement. The Company is obligated to use its reasonable efforts to maintain the effectiveness of the Registration Statement from its effective date through and until such time as exempt sales pursuant to Rule 144(k) may be permitted for the holders of such securities.

Change in Business Resulting from the Merger. Prior to the Merger, the Company had been a development stage company. Since its formation in January 2004, the Company had been primarily engaged in organizational activities and had not realized material revenues from its planned operations. Following the Merger, the Company intends to carry on Novelos's business as its sole business. Novelos is a development stage company established in 1996 to commercialize oxidized glutathione based compounds for the treatment of certain cancers, initially non-small cell lung cancer and ovarian cancer, and hepatitis. Novelos is based in Newton, Massachusetts. As a result, the Company has relocated its principal executive offices to those of Novelos located at One Gateway Center, Suite 504, Newton, Massachusetts 02458. For more information regarding Novelos, see the section entitled, "INFORMATION REGARDING NOVELOS" below.

INFORMATION REGARDING NOVELOS

a. General

Novelos was established in 1996 to commercialize two promising oxidized glutathione based compounds, NOV-002 and NOV-205, for the treatment of cancer and hepatitis. Both compounds have completed clinical trials in humans and have been approved for use in the Russian Federation where they were developed.

NOV-002, marketed in Russia by an unrelated company under the trade name GLUTOXIM(R), has been administered to over 5,000 patients, yielding excellent safety and promising efficacy data. A U.S. Phase I/II clinical trial of NOV-002 for lung cancer has been completed. U.S. clinical trials with NOV-205 for hepatitis C are anticipated to commence shortly.

NOV-002, the lead compound, is being developed to treat non-small cell lung cancer ("NSCLC"). NOV-002 is a cytoprotectant and an immunomodulator. When used in combination with chemotherapy, NOV-002 increased the one year survival rate from 17% to 63% in a Russian study, an 80% increase relative to the U.S. 35% standard of care. A U.S. Phase I/II clinical study involving 44 patients has been completed. Preliminary U.S. results confirm the safety demonstrated in Russian trials. Further, patients treated with NOV-002 demonstrated a trend for higher tolerance of chemotherapy versus the control group. A Phase III study is expected to commence in the second quarter of 2006.

NOV-002 is also being developed to treat ovarian cancer. In a Russian study, NOV-002 sensitized previously platinum-resistant ovarian cancer patients to chemotherapy. In combination with NOV-002, 80% of the women responded favorably to the same chemotherapy that they had failed previously.

Two additional opportunities for NOV-002 are under development. Animal models have shown that NOV-002 may provide a significant survival advantage if administered following catastrophic radiation exposure from, for example, a nuclear weapon, a dirty bomb or an accident at a nuclear power plant. Separately, NOV-002 may be effective in treating severe psoriasis patients. Initial data from a Russian study involving 42 patients show a sustained clinical response of over a year in more than 75% of the patients following a seven-week treatment course with NOV-002 (in monotherapy).

NOV-205 is being developed to treat hepatitis B and C. When used as mono-therapy for one month in hepatitis B and for two months in hepatitis C, NOV-205 has been shown to greatly reduce or eliminate viral loads and to vastly improve liver function relative to existing drugs on the market. Novelos plans to file an IND for NOV-205, as a monotherapy for hepatitis C, and to initiate U.S. clinical trials.

Novelos has a worldwide exclusive license (excluding Russia and other states of the former Soviet Union), whereby all intellectual property related to both clinical compounds and other pre-clinical compounds based on oxidized glutathione have been assigned to Novelos.

b. Business Strategy

The primary objective of Novelos is to fully exploit its proprietary scientific and intellectual property position in glutathione-modulating therapeutics. NOV-002 has demonstrated an excellent safety and efficacy profile in Russia, both in clinical studies and in commercial distribution as an adjunctive treatment to chemotherapy for a number of different cancers. Initial U.S. studies suggest that the Russian experience can be replicated here. The Russian data is particularly compelling in non-small cell carcinoma and refractory (resistant to initial chemotherapy) ovarian cancer, and the current as well as projected unmet medical need in these types of cancer is great. Therefore, Novelos is implementing a focused program in each of these indications designed to gain U.S. Food and Drug Administration ("FDA") approval in the shortest amount of time with a reasonable amount of expense.

Likewise, NOV-205 has demonstrated the ability to substantially decrease the viral load of patients with either hepatitis B or C as well as to restore normal liver function. In the United States, both hepatitis B and C are relatively large markets, but hepatitis B is reasonably well served. Therefore, Novelos will concentrate clinical development efforts on hepatitis C, which should represent a more direct path to regulatory approval as well as providing patients with an improved therapy regimen. An effort will be made to out-license hepatitis B indication in the Far East where the incidence of the disease is very high.

Novelos also intends to aggressively explore the commercial potential of NOV-002 for radiation protection in the U.S. and abroad, to address the growing concern over catastrophic radiation exposure from, for example, a nuclear weapon, a dirty bomb or an accident at a nuclear power plant. Significantly, animals treated with NOV-002 demonstrated an increase of two- to three-fold survival (measured at thirty days) compared to the irradiated control animals. The Company recently responded with a Capability Statement to the U.S. Department of Health and Human Services' Request for Information seeking radiation treatment drugs.

Novelos plans to fund the development of NOV-002 and NOV-205 in the United States using equity capital supplemented with strategic partnerships outside the U.S. For both NOV-002 and NOV-205, Novelos plans to develop the product in the U.S. to the point where initiation of a pivotal trial is possible. Novelos, at that point, plans to out-license the drug and indication in Europe and/or Japan and use resources from the arrangement to offset the expense of the pivotal trials. In addition, Novelos plans to out-license non-strategic indications, like hepatitis B, in non-strategic markets like the Far East (including China and India). Novelos also plans to leverage STTR and U.S. State Department grants, which support Russian scientific employment in the biomedical sciences (as opposed to weapons research), to provide additional funding for preclinical development initiatives.

Novelos intends to operate with a modest staff of highly skilled managers to outsource and supervise most of Novelos's scientific and clinical development functions. Scientific development will be outsourced on a project basis to select academics with specific expertise in the scientific area of interest, to enhance the basic science of the glutathione pathway and to develop additional products and product forms. Clinical development and regulatory submissions will be outsourced to contract research organizations with specific expertise in the indication of interest. Commercial operations will be conducted by collaboration partners and/or contract sales and marketing organizations.

c. Technology Overview

Glutathione (GSH) is a tripeptide (L-a-glutamyl-L-cysteinyl-glycine) containing a reduced thiol (i.e., sulphhydral, or SH) group. The glutathione pathway consists of GSH, GSSG (glutathione disulfide, oxidized glutathione) and associated synthetic, catabolic and metabolic enzymes (e.g., glutathione synthetase, glutathione reductase, glutathione peroxidase, glutathione S-transferase). The glutathione pathway plays a fundamental role in modulating the oxidative (redox) environment of most cells. Glutathione, and the associated intracellular pathways are now emerging as modulators of many cellular reactions, including signaling pathways. The pathway serves two general purposes:

- Cell protection via
  - >> Inactivation of cell-damaging free radicals and reactive oxygen species generated due to oxidative stress in the course of normal cellular metabolism or attendant to various pathophysiological processes
  - >> Formation of glutathione conjugates of toxic compounds, facilitating their active removal from the cell
- Regulation of cell function via
  - >> Modulation of SH-containing enzymes/proteins, which control gene signaling pathways related to cellular processes such as immune modulation, inflammatory responses, cell proliferation and apoptosis

Pharmacological modulation of the glutathione pathway can have multiple (and parallel) effects, with the overall functional consequences being dependent upon the target cells involved and their physiological states (i.e., normal or diseased). In light of this complexity, the precise molecular mechanisms/targets of NOV-002, which account for their clinical effects, are the subject of ongoing study.

It is known that administration of NOV-002 in vivo delivers a stabilized form of GSSG as reflected by sustained elevation of serum and tissue levels of GSSG to a degree that cannot be achieved by un-stabilized, commercial GSSG. The net effect of this elevation is an alteration of the ratio of GSSG:GSH (due to a direct increase in GSSG levels or an indirect increase in GSH levels via glutathione peroxidase activity) and, hence, of the redox state of cells. As exemplified in the body of preclinical data, in vitro and in vivo findings with NOV-002 are consistent with a variety of known effects of modulating the glutathione pathway (e.g., cell protection, modulation of cytokine production including those known to control production of blood cells (hematopoiesis), apoptosis and immune system modulation).

An increasing body of literature points to protein S-glutathiolation, the reversible covalent addition of glutathione to cysteine residues on target proteins, as a mechanism by which changes in the intracellular redox state may be transduced into a functional response. The resulting activation/inhibition of protein function and of gene signaling pathways is analogous to the much-studied role of protein phosphorylation as a cellular regulatory mechanism. GSH can mediate glutathiolation under conditions of oxidative stress. Alternatively, "pre-oxidized" GSSG can directly glutathiolate proteins, a process which may underlie some of NOV-002's actions.

d. Products in Development

Novelos's current pipeline of drugs is based on oxidized glutathione, a natural metabolite, and has shown excellent safety as well as preclinical and clinical efficacy in numerous cancers, hepatitis B and C, HIV, psoriasis, tuberculosis and certain other diseases. The lead products are believed to act via glutathiolation of critical regulatory molecules that mediate immune function, tumor progression (in combination with chemotherapy), and drug detoxification. Manufacturing of these proprietary small molecules is simple, low cost, and scalable, and both compounds are currently produced cGMP in the U.S. by manufacturing partners. The intellectual property includes 4 U.S., 2 European and 1 Japanese patents (issued 2000-2004) and 30 patent applications filed worldwide, with coverage including composition of matter, method of use and

manufacturing. The breadth of the intellectual property will also allow Novelos to expand its pipeline by claiming and commercializing additional compounds that are based on oxidized glutathione.

i. NOV-002 NSCLC

1. Overview and Formulation

NOV-002 is an injectable, small-molecule derivative of a natural metabolite that is being developed in combination with chemotherapy for treatment of lung and ovarian cancer. NOV-002 is a proprietary and stabilized formulation of oxidized glutathione (GSSG) complexed with cis-platinum (cis-Pt) in a 1000:1 molar ratio. It is believed that the small amount of cis-Pt stabilizes the GSSG. Novelos has shown that standard animal and patient dosing results in a cumulative total of cis-Pt that is equivalent to <2% of a typical standard of care in oncology single dose of cis-Pt. As such, the Pt component is not believed to contribute to the pharmacology of the compound. There is no evidence for any adverse effect of the trace amount of cis-Pt present in the compound.

The drug is approved in Russia for general medicinal usage as an immunostimulant in combination with chemotherapy and antimicrobial therapy, and specifically for indications such as tuberculosis. Active additional trials are underway there by an unrelated company for NSCLC and psoriasis in order to register the drug for these specific indications. Safety has been demonstrated in more than 5,000 patients. Evidence of efficacy has been shown in trials with 340 patients with several types of cancer including: non-small cell lung cancer, colorectal cancer, pancreatic cancer, breast cancer and ovarian cancer.

2. Market Opportunity

In 2004, about 1.4 million U.S. men and women were expected to be

diagnosed with cancer. Additionally, in 2004 over 500,000 U.S. cancer patients were expected to die, which makes cancer the second leading cause of death in the U.S., exceeded only by heart disease. Lung cancer is the leading cause of cancer death in the U.S. Lung cancer was expected to be diagnosed in approximately 175,000 people and to be responsible for about 160,000 deaths in 2004. The current pharmaceutical market for lung cancer alone in the U.S. is approximately $800 million. NSCLC accounts for more than 80% of lung cancer. Only about 15% of NSCLC patients are diagnosed early enough to be eligible for surgery.

3. Competition

Platinum-based chemotherapy regimens are standard first-line treatment for advanced NSCLC patients, since these patients are not eligible for surgery. Carboplatin and paclitaxel (Taxol) are the most common combination therapy in the U.S., while cisplatin and gemcitabine (Gemzar) are more common in Europe. One-year survival rate for first-line therapy is typically only 35%, median survival is 8.5 months and an objective response rate is about 21%. Docetaxel (Taxotere) is approved for use as second-line treatment of NSCLC. Unlike NOV-002, no marketed drug or product in development claims or demonstrates increased survival rates,

improved toleration of standard chemotherapy and low toxicity. New regimens with existing cytotoxic drugs are expected to provide only incremental improvements in efficacy and/or safety, but are very expensive. Newly emerging third-line therapies may offer some limited benefit for some specific patients, but efficacy thus far has remained low and the cost high.

5. Clinical

Numerous clinical studies have been concluded in the Russian Federation over the last decade, and NOV-002 was approved as an adjunct to chemotherapy in Russia in 1998. Evidence of clinical safety and efficacy was demonstrated in 340 patients with 13 types of cancers, including:

- Non-small cell lung cancer (NSCLC; 38 patients)
- Colorectal cancer (64 patients)
- Pancreatic cancer (39 patients)
- Breast cancer (33 patients)

These clinical studies were also presented to the FDA in the U.S. IND, which was filed in 1999. Overall, the studies revealed that NOV-002 could be safely and effectively added to various chemotherapy regimens and the patients tolerated the combination therapy better than standard chemotherapy alone. The patients had a better quality of life and rapid restoration of hematological and immunological indices. NOV-002 is expected to be used in combination with existing and future first-line and second-line chemotherapy treatments. Further, NOV-002 may be complementary to certain recently emerging third-line products.

A multi-center, randomized, open-label study was conducted to evaluate the safety and efficacy of NOV-002 in patients with NSCLC. A total of 68 chemo-naive patients (male and female) were enrolled with stage IIIb-IV NSCLC into two groups: treated - 38 patients received chemotherapy plus NOV-002 for one year; control - 30 patients received chemotherapy alone. Patient demographics were comparable in the two groups except that the NOV-002 group had more advanced disease compared to the control group (i.e. 60% Stage IV patients in NOV-002 group vs 23% in the control). The endpoints evaluated were survival, quality of life, Karnofsky Performance Score, and hematological, immunological and biochemical parameters. NOV-002 dramatically and significantly improved 1-year survival from 17% in the control group to 63% in the NOV-002 treated group, as well as increased the tolerability of chemotherapy, as evidenced by 66% increase in the number of chemotherapy cycles. The U.S. standard of care historical 1-year survival is only 35%.

NOV-002 also dramatically improved the quality of life of patients

according to regular assessments made during the two-month period of inpatient treatment in the Russian study. Blood counts of leukocytes, monocytes, erythrocytes/hemoglobin and lymphocytes (including total T cells, T suppressor cells, IL-2 receptor-expressing T cells, and natural killer cells) were all decreased to below the lower limit of the normal range in patients treated with chemotherapy only. In contrast, all of these hematological parameters remained in the normal range in patients treated with chemotherapy plus NOV-002 and were significantly higher compared to the chemo-only group. In addition, NOV-002 protected against liver and kidney toxicities of the chemotherapeutic agents. Standard toxicity markers (AST, ALT, creatinine, urea, bilirubin and ESR) all remained within the normal range in chemotherapy-plus- NOV-002-treated patients compared with chemotherapy-only patients where these markers were all significantly higher and in some cases (AST, urea, ESR) rose above the normal range.

In an independent NSCLC study (of similar design) in Moscow, a 55% one-year survival rate was achieved. Further NOV-002 significantly improved the patient's ability to conduct activity of daily living and quality of life (as measured by the Karnofsky Score), increased tolerance to chemotherapy, improved hematologic parameters and improved or normalized kidney/liver toxicity markers. Importantly, no NOV-002 associated adverse effects were observed.

The FDA approved a Company-sponsored Phase I/II clinical study in late 1999. An IND was supported by the Russian experience. A total of 44 chemo-naive patients were enrolled into this open label, randomized, 3-arm (chemotherapy only, chemotherapy + NOV-002 administered intravenously and intramuscularly, and chemotherapy + NOV-002 administered intravenously and subcutaneously) multi-center study, and the treated patients received NOV-002 for 6 months. Final analysis is being prepared, and expected to be complete in the second quarter of 2005. Preliminary U.S. results confirm the safety demonstrated in Russian trials. Further, patients treated with NOV-002 demonstrated a trend for higher tolerance of chemotherapy versus the control group. A brief pharmacokinetic (PK) study is planned, in order to measure drug concentrations and to compare the bio-availability of drug in humans during intravenous, intramuscular and subcutaneous injections, and thus finalize the route of administration for the pivotal study.

6. Development Strategy and Milestones

Novelos plans to meet with the FDA in the first quarter of 2006 to discuss the results of the Phase I/II NSCLC study as well as the PK study. Thereafter, Novelos expects to proceed with a definitive Phase IIb/III study in NSCLC. This pivotal randomized, stratified and blinded study is currently planned to be conducted in 300 chemotherapy naive stage IIIb/IV patients. The treated group will include 150 patients who will receive the standard first-line chemotherapy (carboplatin and paclitaxel) plus NOV-002, and the control group will be 150 patients who will receive chemotherapy alone. The primary endpoint of the study will be one-year survival, with the study powered to achieve a statistically significant result if the treated group achieves 55% one-year survival versus 40% for the control.

Novelos is working with Boston Medical Center on the lung cancer development program. Benedict Daly, M.D., Clinical Director of General Thoracic Surgery, Director of Center for Thoracic Oncology, and recognized expert in lung cancer, has expressed interest in assisting Novelos with protocol design and study execution.

ii. NOV-002 Ovarian Cancer

1. Market Opportunity

In 2004, ovarian cancer is was expected to be diagnosed in approximately 25,000 U.S. women and be responsible for 16,000 deaths. The current pharmaceutical market for ovarian cancer alone is estimated to be $280 million. There is a lack of effective treatment, particularly in the case of

refractory patients (those that do not respond to chemotherapy). Significantly, first-line chemotherapy treatment is the same in ovarian cancer as in NSCLC.

2. Competition

Standard first-line treatment for ovarian cancer patients is carboplatin and paclitaxel chemotherapy combination. Doxorubicin (Doxil) and topotecan (Hycamtin) alternate as second- and third-line chemotherapy treatments.

Telik initiated a Phase III study with Telcyta (its lead cytotoxic prodrug) in platinum-refractory ovarian cancer. 440 patients will be randomized into two arms: (1) Telcycta in monotherapy versus (2) either doxorubicin or topotecan, both of which are approved as second-line treatments. The primary endpoint is survival, with a secondary endpoint of time to progression. During an earlier Phase II open-label study in 33 platinum-refractory patients (26 patients were evaluable for safety, and 18 for efficacy), an objective response rate of 17% was reported (this comprised 3 partial responders and 0 complete responders). There were also seven patients (39%) with stable disease. Few other products in the ovarian cancer development pipeline seem to offer much promise, particularly for refractory patients because of the complexity of drug resistance in this disease. Response rates from second-line treatments, such as doxorubicin and topotecan, are typically less than 12%. Re-exposure to cisplatin-based treatment will typically have less than 15% response rate.

3. Competitive Advantage

Novelos's clinical data suggests the ability of NOV-002 to sensitize previously platinum-resistant ovarian cancers. A 40% objective response rate (in combination with platinum based chemotherapy) compares very favorably to Telcyta's 17% Phase II results. Objective response is defined as partial (50% or greater tumor reduction) or complete response; it does not include stabilization of the disease or small reductions in tumor size. Thus, NOV-002 has the potential to be used across the full spectrum of patients with platinum-refractory disease.

4. Clinical

Twenty ovarian cancer patients were treated for three cycles with standard chemotherapy. All patients were assessed with progressive disease according to qualitative assessments and Cancer Antigen 125. The patients were then treated with NOV-002 for 3-4 weeks, followed by three more cycles of the same chemotherapy (which they previously failed) in conjunction with NOV-002. None of the patients responded to chemotherapy alone. However, 80% of the patients (16 out of 20) demonstrated a qualitative response to NOV-002. This is further substantiated by a significant reduction of CA-125 for NOV-002 treated patients. A 40% objective response rate (8 out of 20) compares very favorably to Telik's Telcyta 17% Phase II results. Thus, NOV-002 has the potential to be used across the full spectrum of patients with platinum-refractory disease.

5. Development Strategy and Milestones

A cancer development strategy has been formulated, and the ovarian cancer program will be pursued via the existing IND. Novelos plans to meet with the FDA in the first quarter of 2006. In addition to discussing the results of the Phase I/II NSCLC and PK studies, Novelos intends to present to the FDA a clinical development program in platinum-refractory ovarian cancer under the open NOV-002 IND. Novleos expects to proceed with a Phase II study in the second quarter of 2006. This open-label single arm study is expected to enroll 20 platinum-refractory patients (defined as having progressive disease after 3 months of receiving platinum-based treatment). The primary endpoint will be objective response rate during two months of dosing (NOV-002 plus platinum-based chemotherapy) and a short follow-up period. If Novelos observes a response rate at or above 20-30% threshold, it will proceed with a pivotal 100 patient study in the second quarter of 2007, which will evaluate survival in addition to response rates.

Novelos is currently working with Massachusetts General Hospital, founding member of Partners Healthcare System (which also includes Harvard, Dana Farber, and Brigham and Women's), on the Phase II clinical development program

for refractory ovarian cancer. Michael Seiden, M.D., Ph.D., a recognized expert in ovarian cancer, has expressed interest in being the Principal Investigator for a clinical study in refractory ovarian cancer and will assist Novelos with protocol design. Dr. Seiden is an Associate Physician in Medicine at MGH, Associate Professor in Medicine, Harvard University, and he oversees the clinical research program and Research Committee for the Dana Farber Harvard Cancer Program.

iii. NOV-002 Other Indications

1. Radiation Protection

Significant market opportunity and unmet need exists for a drug that may safely treat the effects of acute radiation injury. In today's world, there appears to be more concern than ever about an attack by a nuclear weapon, a dirty bomb or an attack or accident at a nuclear power plant. The majority of deaths following such attack would not result from the explosion itself, but from bone marrow suppression, which in turn leads to neutropenia (severe loss of white blood cells - neutrophils - leaving the body defenseless against infections) and depletion of platelets (key clotting factors that stop bleeding). The window of opportunity to treat radiation injury is short, thus the drug would need to be stockpiled at the local level in high risk areas, such as military bases, major population centers and 10-50 mile radius of a nuclear power plant facility.

Current treatment options are essentially non-existent. Potassium Iodide (KI) is the only pharmaceutical agent that has been stockpiled in the event of radiation exposure. However, it is only effective in reducing the risk of thyroid cancer, and does not protect the body from acute radiation injury. Similarly, the FDA recently approved pentetate calcium trisodium injection (Ca-DTPA) and pentetate zinc trisodium injection (Zn-DTPA), which have already been in use for decades to treat radiation contamination caused by industrial accidents. The goal of treatment with Ca-DTPA and Zn-DTPA is to help remove the radioactive elements from the

body and reduce the risk of the development of illnesses such as cancer that can occur years after exposure, but do not address acute radiation injury. Hollis-Eden is developing a drug to provide protection from the acute effects of radiation on the bone marrow. However, no human safety or PK data has yet been obtained, and survival benefit in preclinical studies was achieved by dosing animals prior to radiation exposure.

NOV-002 has been safely administered to thousands of Russian patients and in a U.S. Phase I/II lung cancer study. Further, NOV-002 has already demonstrated the ability to restore hematological parameters and boost immune function in cancer patients receiving chemotherapy.

In a recent preclinical experiment, groups of mice and rats were irradiated. The animals treated with NOV-002 demonstrated an increase of two- to three-fold survival (measured at thirty days) compared to the irradiated control animals. Moreover, there was a 2.5 times increase in the number of hematopoietic colony-forming units in the spleens of mice receiving NOV-002 after radiation, as compared to those receiving radiation alone. In another experiment, two groups of rats were irradiated. The control group received no treatment. The treated group received daily injections of NOV-002. The NOV-002 treated animals did not experience severe neutropenia. Thus, NOV-002 is a safe clinically proven product that has the potential to reduce the development of neutropenia, increase bone marrow cells and improve chances of survival when administered at times after acute exposure to radiation.

Novelos intends to aggressively explore the commercial potential of NOV-002 for radiation protection in the U.S. and abroad, to address the growing concern over catastrophic radiation exposure from a nuclear weapon, a dirty bomb, or an attack or accident at a nuclear power plant. In December 2004, Novelos submitted a Capability Statement in response to Department of Health and Human Services' Request for Information (RFI 65-ORDC-05-01) for Therapeutics to Treat Neutropenia and Thrombocytopenia Associated with the Acute Radiation Syndrome (ARS).

2. Psoriasis

Psoriasis represents a significant market opportunity in the U.S., with no cure for the disease. According to the National Psoriasis Foundation more than 4.5 million patients are afflicted with psoriasis, with approximately 1.5 million patients suffering from moderate-severe disease. Treatment options for moderate-severe patients were previously limited to phototherapy and/or systemic treatments like cyclosporine and methotrexate, all of which are highly toxic. Within the past year, several biologics have been approved by the FDA, including Amgen's Enbrel, BiogenIdec's Amevive, and Genentech's Raptiva. Abbott's Humira and J&J's Remicade have demonstrated efficacy in Phase II studies, but serious safety concerns remain.

Enbrel appears to be the market leader based on its combination of safety (having been used by over 200,000 rheumatoid arthritis patients in the past six years), efficacy and relative ease of use. Citigroup forecasts $1.8 billion overall sales for Enbrel in 2004 and $2.3 billion in 2005; and expects psoriasis to become a multi-billion dollar indication for biologics. Enbrel is self-administered subcutaneously by patients twice weekly for the first 3 months, and then followed by a weekly maintenance injection for up to another 9 months. After 3 months of treatment, in the best case, 50% of treated patients reached a PASI 75 (75% improvement in the Psoriasis Area Severity Index) and had a "clear/almost clear" disease state. Enbrel - along with other biologics - are difficult and expensive to manufacture with high cost of raw materials. Enbrel, and all TNF blocking agents to date, are associated with an enhanced susceptibility to infection.

According to preliminary results from Russia, NOV-002 may offer a safe alternative to Enbrel, but with shorter treatment time, potentially better efficacy, and at a significantly lower cost of goods. An open-label, randomized study in 200 Russian (100 treated / 100 control) severe psoriasis patients is ongoing. No NOV-002 related adverse events have been observed to date. Initial results in a 42-patient sample from the treated group demonstrated a 78% clinical response (measured by no infiltration, no scaling and extended remission period - for 12 months or more).

Regression of the skin lesions occurred rapidly with improvement in the first 15 days of NOV-002 treatment. A 100% biochemical response was also observed. Overall treatment period was less than two months in monotherapy with NOV-002. No NOV-002 associated adverse effects were observed. The finalized data package is expected to be submitted to the Russian Ministry of Health in the second quarter of 2005, so as to add the specific psoriasis approval/indication to the Russian NOV-002 package insert. Once the Russian regulatory submission is complete, Novelos will review all the finalized data and make a strategic decision as to how to proceed with the psoriasis indication in the U.S., Europe and Japan.

3. Tuberculosis

NOV-002 is approved for use in Russia as part of combined anti-tuberculosis therapy of severe disseminated forms of tuberculosis in case of any localization of tuberculosis mycobacteria drug resistance, for preventing chronic hepatitis in tuberculosis patients receiving anti-tuberculosis therapy and for treating toxic complications of anti-tuberculosis therapy. NOV-002 demonstrated improved efficacy of tuberculosis therapy in both preclinical and clinical studies in Russia. In a clinical study, with drug resistant tuberculosis patients receiving standard therapy or standard therapy plus NOV-002, bacterial discharge cessation was measured at the end of months 1, 2 and 3. Administration of NOV-002 led to faster disappearance of the tubercle bacteria from sputum, and achieved response in greater number of patients. Beneficial effects of NOV-002 were also seen in drug-susceptible tuberculosis patients. No NOV-002 associated adverse effects were observed.

iv. NOV-205 Hepatitis C

1. Overview (including hepatitis B) and Formulation

Hepatitis B and C are potentially fatal viral infections of the liver for which there are limited therapies. NOV-205 is a unique, injectable, small

molecule proprietary formulation of oxidized glutathione stabilized with inosine in a 1:1 molar ratio, which has been effective in safely reducing the viral load and improving the liver function of hepatitis B and C patients. The drug was approved for an unrelated company in Russia as a mono-therapy agent to treat hepatitis B and C and has an excellent safety profile.

The Russian approval was supported by an NDA application which included 3 studies in hepatitis B and 3 studies in hepatitis C, totaling 90 treated patients. An additional 88 patients were treated in previous anecdotal studies. No NOV-205 related adverse events were reported among any of the 178 patients treated in these studies. Standard Western efficacy endpoints were used, such as:

- Improved liver function tests (such as ALT, etc)
- Improved clinical indices
- Decreased viral load (as measured by PCR)

Overall, NOV-205 has been extremely effective in reducing the viral load and improving the liver function of hepatitis patients, with relatively short treatment periods of only 1-2 months. In addition to its efficacy, NOV-205 is very safe in contrast to the currently approved therapies in the U.S., which have limited effectiveness, are expensive and have severe side effects (such as fatigue, fever, headaches, muscle pain, etc.) - particularly in the case of chronic hepatitis C. No adverse events were observed in 178 Russian patients treated with NOV-205. Pegylated interferon and ribavirin combinations, on the other hand, have limitations of safety and tolerability (40-65% of treated patients experience fatigue, depression, fever, headaches, muscle pain, anemia, etc.). In fact, side effects render 70% of hepatitis C patients ineligible or intolerant of combination therapy with interferon-alfa and ribavirin.

2. Market Opportunity

Chronic hepatitis C affects 170 million people worldwide, and up to 4 million people are newly infected each year. Chronic infection can progress to cirrhosis and end-stage liver disease. While there are varying estimates about the size of the global market for hepatitis C drugs, the current market is believed to be in excess of $2 billion per year, growing to $4 billion by 2007 and over $10 billion by 2012. In the U.S., an estimated 3.9 million persons are infected with hepatitis C, and 2.7 million persons in the U.S. have chronic infection. HCV infections account for approximately 30,000 new infections and 8,000-10,000 deaths each year in the U.S.

3. Competition and Unmet Need

The Western standard of care chronic hepatitis C drugs such as the pegylated interferon and ribavirin combos are difficult to tolerate for many patients. Furthermore, these drugs are effective in relatively few patients (only 15-20% benefit from latest pegylated interferon + ribavirin combination therapy), and are very expensive ($30,000 - $40,000 annual treatment costs). The new product pipeline is relatively small, with 10 hepatitis C products in phase I/II clinical development and 3 in phase III. While a few are novel approaches in early stage development, most are variations of ribavirin and interferon.

4. Competitive Advantage

NOV-205 appears to have a number of advantages over the current hepatitis C drugs, including:

- Greatly improved safety / side-effect profile. NOV-205 has shown no toxicity in studies thus far. Therefore, it is anticipated that this drug will be able to be used in virtually all hepatitis C patients versus the 15-20% for interferon + ribavirin combination.
- Improved efficacy potential based on data observed to date. NOV-205 has been able to reduce viral load, below the point of detection, in 50% of

patients after two months' treatment and at the same time substantially improve liver function.

- Major manufacturing cost advantages. NOV-205 is a small molecule that is easily manufactured. This cost advantage will allow pricing flexibility and/or enhance margins.

5. Clinical

A total of 59 chronic hepatitis C patients were treated, 30 as part of the Russian NDA submission and 29 in the anecdotal study. The duration of treatment was 48 days for the NDA studies and 1 month for the anecdotal study. Dosage was 10-30mg intravenous / intramuscular. Numerous safety and efficacy evaluations were conducted before, during and after treatment. The efficacy results are summarized in the table below. In the study, 40-60% of the chronic hepatitis C patients did not have any measurable viral load, and patients on average experienced a substantial improvement in liver function, during only one to two months of treatment. Significantly, these responses were largely maintained during the one to three months of follow up.

6. Development Strategy and Milestones

On the basis of the Russian NDA package, Novelso expects to submit an IND in the third quarter of 2005 for mono-therapy in hepatitis C. The study design and overall clinical development plan will be discussed with the FDA during a pre-IND meeting. A short Phase I/II study may be conducted that would include pharmacokinetics to define the dose of subcutaneous injection. Novelos expects to begin a Phase II efficacy study in the second quarter of 2006. This study would seek to enroll up to 80 hepatitis C patients, treat them with NOV-205 in monotherapy for three months, then assess viral load and liver function at the end of treatment, as well as three and six months following treatment. On the basis of these results, Novelos will design and implement a pivotal Phase III study.

v. NOV-205 Other Indications

1. Hepatitis B

Hepatitis B is a serious global public health problem, 50 to 100 times more infectious than HIV. Of the 2 billion people who have been infected with hepatitis B, more than 350 million have chronic infections. In the United States, hepatitis B is a relatively large market, but hepatitis B is reasonably well served. Therefore, Novelos will not initially concentrate clinical development efforts on hepatitis B in the U.S. An effort will be made to out-license hepatitis B indication in the Far East where the incidence of the disease is very high.

2. HIV

Novelos believes that its oxidized glutathione platform, and NOV-205 in particular, may have application in HIV infected patients. A trial in AIDS patients was conducted with oxidized glutathione (GSSG). A 27-week randomized, double-blind, placebo-controlled, single-center study compared the efficacy and safety of GSSG versus placebo in 120 HIV positive patients with clinical manifestations (i.e., "full-blown" AIDS). The study was conducted at the Treichville University Clinic of the Medical Faculty of the National University, Abidjan, The Republic of the Ivory Coast. The study consisted of a 4-week treatment period, a 3-week treatment-free period, a second 4-week treatment period, and a 16-week follow-up period. During the two treatment periods, 5 mg of GSSG or 0.2 mL isotonic saline were injected subcutaneously on Days 1, 3, and 5 of each week for a total of 12 doses in each treatment period. In the population that received treatment, 68% of patients who received GSSG were alive at the end of the study versus 37% of patients who received the placebo. These results were highly significant and are especially encouraging considering that the treatment group received a relatively low dose of GSSG as sole treatment for HIV infection and only received treatment for 24 days or less out of the 27 weeks of the study. No adverse events were associated with GSSG during the study. Further, four patient case studies were conducted with NOV-205. Each "full-blown" AIDS patient was treated in monotherapy (without ART) for 8-12 weeks; dosing was 30mg intra-muscular with NOV-205 three times per week. All

patients experienced a reduction in plasma HIV RNA levels, as well as increases in lymphocytes, CD4 counts and improvement in quality of life as measured by the Karnofsky score. An HIV development plan for the U.S. is currently under consideration.

e. Research and Preclinical Programs

The scientific development of Novelos is led by Kenneth Tew, Ph.D., D.Sc., Chairman of the Department of Cell and Molecular Pharmacology and Experimental Therapeutics at Medical University of South Carolina. A detailed preclinical development plan has been formulated with Dr. Tew. The general objectives of the plan are to add to the understanding of NOV-002 and NOV-205 as drug products to facilitate: (1) design and execution of clinical studies, (2) interactions with the FDA and (3) interactions with others in the scientific community.

Specifically, the plan covers three areas:

- Analytical methods development and animal experiments in support of a human pharmacokinetic study, and subsequent implementation of such study

- In vitro studies aimed at identifying proteins/pathways/cellular processes that may represent mechanistic targets for the products

- Animal models demonstrating chemoprotection and efficacy

Novelos is also working with Jeffrey Gelfand, M.D., Senior Advisor International Medical Affairs at Partners Healthcare System (Massachusetts General Hospital, Harvard, Dana Farber, Brigham and Women's) / Director of Center for Integration of Medicine and Innovative Technology as well as with the U.S. State Department to continue research and development efforts in Russia. Through an ongoing effort, the U.S. State Department has committed over $30 million to convert former Russian bioweapons facilities into research/medical institutions with technologies/products suitable for commercialization. Novelos hopes to launch several mechanistic and oral formulation experiments as well as host defense animal studies through this effort. Dr. Gelfand's new laboratory at Shriner's Hospital is expected to commence a program in animal models to validate Novelos's radiation protection results from Russia.

Novelos intends to continue to collaborate with leading Russian research institutions in Moscow and St. Petersburg, under the overall guidance of Dr. Tew, to enhance the basic science of the glutathione pathway, support development of NOV-002 and NOV-205 and develop additional products and product forms. Further, through its relationships in Russia, Novelos continues to have unique access to products not only developed by its Russian partner, ZAO BAM, but also by other research institutions and scientists.

f. Manufacturing

Novelos's proprietary manufacturing process is well developed according to cGMP, simple, inexpensive and scalable. Novelos has used U.S. contract manufacturing facilities to support its U.S. development efforts. Novelos does not plan to build manufacturing capability over the next several years. Rather, it plans to continue to employ contract manufacturers.

The active pharmaceutical ingredient (API) of NOV-002 is chemically synthesized oxidized glutathione (GSSG) stabilized with a fixed amount (0.05%) of cisplatin. NOV-002 API is cGMP manufactured in the U.S. at an FDA-inspected facility in a single, very cost effective synthetic step and then lyophilized into a powder. It is then filled, finished and packaged in the U.S. at an FDA-inspected facility as a sterile filtered, aseptically processed solution for intravenous, intramuscular and/or subcutaneous use. NOV-002 Clinical Trial Material, API and vials, successfully completed 36-month stability studies.

NOV-205 is a unique, injectable, small molecule proprietary formulation of oxidized glutathione stabilized with inosine, in a 1:1 molar ratio. Similar to NOV-002, NOV-205 API is cGMP manufactured in a single, very cost effective synthetic step and then lyophilized into a powder.

g. Intellectual Property

Novelos has a strong intellectual property position around the oxidized glutathione platform. Over 30 patent applications have been filed worldwide. Claim structures are broad and include:

- Composition of matter, methods of use and manufacturing
- Synthetically modified GSSGs
- GSSGs + Pt / Pd (includes NOV-002)
- GSSGs + DNA / RNA bases, nucleotides and nucleosides (includes NOV-205)
- Salt forms of the above
- Methods of use GSSG

Four patents have been issued in United States:

- US 6,165,979 (issued Dec 26, 2000). Method of stimulating cytokine and hematopoietic factor production with GSSG, with or without extenders. Claims include treatment of cancer, hematologic, immunologic and infectious diseases (viral and bacterial), etc. Covers variations of GSSG including NOV-002 and NOV-205.
- US 6,251,857 (issued June 26, 2001). Similar to above, but adds GSSG salts and derivatives.
- US 6,312,734 (issued Nov 6, 2001). Composition of matter of GSSG stabilized with various metals. Claims include treatment of cancer, hematologic, immunologic and infectious diseases (viral and bacterial), and other medical conditions. Covers NOV-002.
- US 6,492,329 (issued Dec 10, 2002). Continuation in part of US patent 6,251,857.

Two patents have been issued in Europe (encompassing 17 countries), and one in each of Japan and China.

h. Properties

Novelos is currently subleasing approximately 2,500 square feet of office space, located outside of Boston, MA, on a short term basis.

i. Regulation

The manufacturing and marketing of any drug or drug delivery technology, including NOV-002 and NOV-205, and Novelos's related research and development activities are subject to regulation for safety, efficacy and quality by numerous governmental authorities in the United States and other countries. Novelos anticipates that these regulations will apply separately to each drug and compound in its drug therapy technology. Novelos believes that complying with these regulations will involve a considerable level of time, expense and uncertainty.

In the United States, drugs are subject to rigorous federal regulation and, to a lesser extent, state regulation. The Federal Food, Drug and Cosmetic Act, as amended, and the regulations promulgated thereunder, and other federal and state statutes and regulations govern, among other things, the testing, manufacture, safety, efficacy, labeling, storage, record keeping, approval, advertising and promotion of Novelos's drugs. Drug development and approval within this regulatory framework is difficult to predict and will take a number of years and involve the expenditure of substantial resources.

The steps required before a pharmaceutical agent may be marketed in the United States include:

Pre-clinical laboratory tests, in vivo pre-clinical studies and formulation studies;

The submission to the FDA of an Investigational New Drug Application (IND) for human clinical testing which must become effective before human clinical trials can commence;

Adequate and well-controlled human clinical trials to establish the safety and efficacy of the product;

The submission of a New Drug Application or Biologic Drug License Application to the FDA; and

FDA approval of the New Drug Application or Biologic Drug License Application prior to any commercial sale or shipment of the product.

In addition to obtaining FDA approval for each product, each domestic product manufacturing facility must be registered with, and approved by, the FDA. Domestic manufacturing facilities are subject to biennial inspections by the FDA and must comply with the FDA's Good Manufacturing Practices for products, drugs and devices.

Pre-Clinical Trials

Pre-clinical testing includes laboratory evaluation of chemistry and formulation, as well as tissue culture and animal studies to assess the potential safety and efficacy of the product. Pre-clinical safety tests must be conducted by laboratories that comply with FDA regulations regarding Good Laboratory Practices. No assurance can be given as to the ultimate outcome of such pre-clinical testing. The results of pre-clinical testing are submitted to the FDA as part of an IND and are reviewed by the FDA prior to the commencement of human clinical trials. Unless the FDA objects to an IND, the IND will become effective 30 days following its receipt by the FDA. Novelos intends to largely rely upon contractors to perform pre-clinical trials.

Clinical Trials

Clinical trials involve the administration of the new product to healthy volunteers or to patients under the supervision of a qualified principal investigator. Clinical trials must be conducted in accordance with Good Clinical Practices under protocols that detail the objectives of the study, the parameters to be used to monitor safety and the efficacy criteria to be evaluated. Each protocol must be submitted to the FDA as part of the IND. Further, each clinical study must be conducted under the auspices of an independent institutional review board at the institution where the study will be conducted. The institutional review board will consider, among other things, ethical factors, the safety of human subjects and the possible liability of the institution. Compounds must be formulated according to Good Manufacturing Practices.

Clinical trials are typically conducted in three sequential phases, but the phases may overlap. In Phase I, the initial introduction of the product into healthy human subjects, the drug is tested for safety (adverse side effects), absorption, dosage tolerance, metabolism, bio-distribution, excretion and pharmacodynamics (clinical pharmacology). Phase II is the proof of principal stage and involves studies in a limited patient population in order to:

- Determine the efficacy of the product for specific, targeted indications;
- Determine dosage tolerance and optimal dosage; and
- Identify possible adverse side effects and safety risks.

When there is evidence that the product is found to be effective and has an acceptable safety profile in Phase II evaluations, Phase III trials are undertaken to further evaluate clinical efficacy and to test for safety within an expanded patient population at geographically dispersed multi-center clinical study sites. Phase III trials frequently involve randomized controlled trials

and, whenever possible, double blind studies. Novelos, or the FDA, may suspend clinical trials at any time if it is believed that the individuals participating in such trials are being exposed to unacceptable health risks. Novelos intends to rely upon contractors to perform its clinical trials

New Drug Application and FDA Approval Process

The results of the pharmaceutical development, pre-clinical studies and clinical studies are submitted to the FDA in the form of a New Drug Application for approval of the marketing and commercial shipment of the product. The testing and approval process is likely to require substantial cost, time and effort for which the proceeds of this offering will be inadequate. In addition to the results of preclinical and clinical testing, the NDA applicant must submit detailed information about chemistry, manufacturing and controls that will determine how the product will be made. The approval process is affected by a number of factors, including the severity of the disease, the availability of alternative treatments and the risks and benefits demonstrated in clinical trials. Consequently, there can be no assurance that any approval will be granted on a timely basis, if at all. The FDA may deny a New Drug Application if applicable regulatory criteria are not satisfied, require additional testing or information or require post-marketing testing and surveillance to monitor the safety of a company's products if it does not believe the New Drug Application contains adequate evidence of the safety and efficacy of the drug. Notwithstanding the submission of such data, the FDA may ultimately decide that a New Drug Application does not satisfy its regulatory criteria for approval. Moreover, if regulatory approval of a drug is granted, such approval may entail limitations on the indicated uses for which it may be marketed. Finally, product approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur following initial marketing. Post approval studies may be conducted as Phase IV to explore further intervention, new indications or new product uses.

Among the conditions for New Drug Application approval is the requirement that any prospective manufacturer's quality control and manufacturing procedures conform to Good Manufacturing Practices and the requirement specifications of the FDA. In complying with standards set forth in these regulations, manufacturers must continue to expend time, money and effort in the area of drug application and quality control to ensure full technical compliance. Manufacturing establishments, both foreign and domestic, also are subject to inspections by or under the authority of the FDA and by other federal, state or local agencies.

International Approval

Whether or not FDA approval has been obtained, approval of a product by regulatory authorities in foreign countries must be obtained prior to the commencement of commercial sales of the drug in such countries. The requirements governing the conduct of clinical trials and drug approvals vary widely from country to country, and the time required for approval may be longer or shorter than that required for FDA approval. Although there are some procedures for unified filings for certain European countries, in general, each country at this time has its own procedures and requirements.

i. Litigation

The are no legal proceedings pending, or to Novelos's knowledge, threatened against Novelos.

CAUTIONARY STATEMENTS

THE FAILURE TO COMPLETE DEVELOPMENT OF NOVELOS'S THERAPEUTIC TECHNOLOGY, OBTAIN GOVERNMENT APPROVALS, INCLUDING REQUIRED FDA APPROVALS, OR TO COMPLY WITH ONGOING GOVERNMENTAL REGULATIONS COULD PREVENT, DELAY OR LIMIT INTRODUCTION OR SALE OF PROPOSED PRODUCTS AND RESULT IN FAILURE TO ACHIEVE REVENUES OR MAINTAIN NOVELOSS ONGOING BUSINESS.

Novelos's research and development activities, the manufacture and marketing of Novelos's intended products are subject to extensive regulation for safety, efficacy and quality by numerous government authorities in the United States and abroad. Before receiving FDA clearance to market Novelos's proposed products, Novelos will have to demonstrate that its products are safe and effective on the patient population and for the diseases that are to be treated. Clinical trials, manufacturing and marketing of drugs are subject to the rigorous testing and approval process of the FDA and equivalent foreign regulatory authorities. The Federal Food, Drug and Cosmetic Act and other federal, state and foreign statutes and regulations govern and influence the testing, manufacture, labeling, advertising, distribution and promotion of drugs and medical devices. As a result, clinical trials and regulatory approval can take a number of years or longer to accomplish and require the expenditure of substantial financial, managerial and other resources.

In order to be commercially viable, Novelos must successfully research, develop, obtain regulatory approval for, manufacture, introduce, market and distribute its technologies. For each drug utilizing oxidized glutathione based compounds, including NOV-002 and NOV-205, Novelos must successfully meet a number of critical developmental milestones, including:

- o demonstrate benefit from delivery of each specific drug for specific medical indications,
- o demonstrate through pre-clinical and clinical trials that each drug is safe and effective,
- o demonstrate that Novelos has established a viable Good Manufacturing Process capable of potential scale-up.

The time-frame necessary to achieve these developmental milestones may be long and uncertain, and Novelos may not successfully complete these milestones for any of its intended products in development.

In addition to the risks previously discussed, Novelos's technology is subject to additional developmental risks which include the following:

- o the uncertainties arising from the rapidly growing scientific aspects of drug therapies and potential treatments
- o uncertainties arising as a result of the broad array of alternative potential treatments related to cancer, hepatitis and other diseases
- o anticipated expense and time believed to be associated with the development and regulatory approval of treatments for cancer, hepatitis and other diseases.

In order to conduct clinical trials that are necessary to obtain approval by the FDA to market a product, it is necessary to receive clearance from the FDA to conduct such clinical trials. The FDA can halt clinical trials at any time for safety reasons or because Novelos or its clinical investigators do not follow the FDA's requirements for conducting clinical trials. If Novelos is unable to receive clearance to conduct clinical trials or the trials are halted by the FDA, Novelos would not be able to achieve any revenue from such product, as it is illegal to sell any drug or medical device for human consumption without FDA approval.

DATA OBTAINED FROM CLINICAL TRIALS IS SUSCEPTIBLE TO VARYING INTERPRETATIONS, WHICH COULD DELAY, LIMIT OR PREVENT REGULATORY CLEARANCES.

Data already obtained, or in the future obtained, from pre-clinical studies and clinical trials do not necessarily predict the results that will be obtained from later pre-clinical studies and clinical trials. Moreover, pre-clinical and clinical data is susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. A number of companies in the pharmaceutical industry have suffered significant setbacks in advanced clinical trials, even after promising results in earlier trials. The failure to adequately demonstrate the safety and effectiveness of an intended product under development could delay or prevent regulatory clearance of the potential drug,

resulting in delays to commercialization, and could materially harm Novelos's business. Its clinical trials may not demonstrate sufficient levels of safety and efficacy necessary to obtain the requisite regulatory approvals for its drugs, and thus the proposed drugs may not be approved for marketing.

Novelos may encounter delays or rejections based upon additional government regulation from future legislation or administrative action or changes in FDA policy during the period of development, clinical trials and FDA regulatory review. It may encounter similar delays in foreign countries. Sales of Novelos's products outside the U.S. would be subject to foreign regulatory approvals that vary from country to country. The time required to obtain approvals from foreign countries may be shorter or longer than that required for FDA approval, and requirements for foreign licensing may differ from FDA requirements. Novelos may be unable to obtain requisite approvals from the FDA and foreign regulatory authorities, and even if obtained, such approvals may not be on a timely basis, or they may not cover the uses that Novelos requests.

Even if Novelos does ultimately receive FDA approval for any of its products, it will be subject to extensive ongoing regulation. This includes regulations governing manufacturing, labeling, packaging, testing, dispensing, prescription and procurement quotas, record keeping, reporting, handling, shipment and disposal of any such drug. Failure to obtain and maintain required registrations or comply with any applicable regulations could further delay or preclude Novelos from developing and commercializing its drugs and subject it to enforcement action.

NOVELOS'S DRUGS OR TECHNOLOGY MAY NOT GAIN FDA APPROVAL IN CLINICAL TRIALS OR BE EFFECTIVE AS A THERAPEUTIC AGENT WHICH COULD AFFECT NOVELOS'S FUTURE PROFITABILITY AND PROSPECTS.

In order to obtain regulatory approvals, Novelos must demonstrate that the each drug is safe and effective for use in humans and functions as a therapeutic against the effects of disease or other physiological response. To date, studies conducted in Russia involving Novelos's NOV-002 and NOV-205 products have shown promising results, and, in fact, NOV-002 has been approved for use there as an immunostimulant in combination with chemotherapy and antimicrobial therapy and indications such as tuberculosis, and NOV-205 has been approved there as a mono-therapy agent for the treatment of hepatitis B and C. Moreover, a U.S. Phase I/II clinical study involving 44 NSCLC patients has been completed. Preliminary US results confirm the safety demonstrated in Russian trials. Further, patients treated with NOV-002 demonstrated a trend for higher tolerance of chemotherapy versus the control group. Novelos anticipates being able to commence a Phase III study of NOV-002 for lung cancer in the second quarter of 2006. It also anticipates completing a Phase II trial for NOV-002 for ovarian cancer in the first quarter of 2007. Novelos further intends to file an IND for NOV-205 for hepatitis C in the third quarter of 2005 and to complete a Phase II trial in the first quarter of 2007. There can be no assurance, however, that Novelos can demonstrate that these products are safe or effective in advanced clinical trials. Novelos is also not able to give assurances that the results of the tests already conducted can be repeated or that further testing will support its applications for regulatory approval. As a result, Novelos's drug and technology research program may be curtailed, redirected or eliminated at any time.

THERE IS NO GUARANTEE THAT NOVELOS WILL EVER GENERATE REVENUE OR BECOME PROFITABLE EVEN IF ONE OR MORE OF ITS DRUGS ARE APPROVED FOR COMMERCIALIZATION.

Novelos expects to incur increasing operating losses over the next several years as it incurs increasing costs for research and development and clinical trials. Its ability to generate revenue and achieve profitability depends upon its ability, alone or with others, to complete the development of its proposed products, obtain the required regulatory approvals and manufacture, market and sell the proposed products. Development is costly and requires significant investment. In addition, Novelos may choose to license or obtain the assignment of rights to additional drugs. The license fees for such drugs may increase its costs.

To date, Novelos has not generated any revenue from the commercial sale of its proposed products or any drugs and does not expect to receive such revenue in the near future. Its primary activity to date has been research and

development. A substantial portion of the research results

and observations on which Novelos relies were performed by third-parties at those parties' sole or shared cost and expense. Novelos cannot be certain as to when or whether to anticipate commercializing and marketing its proposed products in development, and does not expect to generate sufficient revenues from proposed product sales to cover its expenses or achieve profitability in the near future.

NOVELOS RELIES SOLELY ON RESEARCH FACILITIES AT VARIOUS UNIVERSITIES AND HOSPITALS FOR ALL OF ITS RESEARCH AND DEVELOPMENT, WHICH COULD BE MATERIALLY DELAYED SHOULD IT LOSE ACCESS TO THOSE FACILITIES.

At the present time, Novelos has no research and development facilities of its own. It is entirely dependent on third parties to use their facilities to conduct research and development. Novelos's inability to have the facilities to conduct research and development may delay or impair its ability to gain FDA approval and commercialization of its drug delivery technology and products.

Novelos currently maintains a good working relationship with its research facilities. Should the situation change and Novelos be required to relocate on short notice, it does not currently have an alternate facility where it could relocate its research activities. The cost and time to establish or locate an alternative research and development facility to develop Novelos's technology, other than through hospitals and universities, would be substantial and would delay gaining FDA approval and commercializing Novelos's products.

NOVELOS IS DEPENDENT ON ITS COLLABORATIVE AGREEMENTS FOR THE DEVELOPMENT OF THE ITS TECHNOLOGIES AND BUSINESS DEVELOPMENT, WHICH EXPOSES NOVELOS TO THE RISK OF RELIANCE ON THE VIABILITY OF THIRD PARTIES.

In conducting Novelos's research and development activities, it relies upon numerous collaborative agreements with universities, hospitals, governmental agencies, charitable foundations, manufacturers and others. The loss of or failure to perform under any of these arrangements, by any of these entities, may substantially disrupt or delay Novelos's research and development activities including its anticipated clinical trials.

Novelos may rely on third party contract research organizations, service providers and suppliers to support development and clinical testing of its products. Failure of any of these contractors to provide the required services in a timely manner or on reasonable commercial terms could materially delay the development and approval of Novelos's products, increase its expenses and materially harm Novelos's business, financial condition and results of operations.

NOVELOS IS EXPOSED TO PRODUCT LIABILITY, CLINICAL AND PRECLINICAL LIABILITY RISKS WHICH COULD PLACE A SUBSTANTIAL FINANCIAL BURDEN UPON IT SHOULD NOVELOS BE SUED, BECAUSE NOVELOS DOES NOT CURRENTLY HAVE PRODUCT LIABILITY INSURANCE ABOVE AND BEYOND ITS GENERAL INSURANCE COVERAGE.

Novelos's business exposes it to potential product liability and other liability risks that are inherent in the testing, manufacturing and marketing of pharmaceutical products. Novelos cannot assure that such potential claims will not be asserted against it. In addition, the use in Novelos's clinical trials of pharmaceutical products that it may develop and then subsequently

sell or Novelos's potential collaborators may cause Novelos to bear a portion of or all product liability risks. A successful liability claim or series of claims brought against Novelos could have a material adverse effect on its business, financial condition and results of operations.

Novelos does not currently have any product liability insurance or other liability insurance relating to clinical trials or any products or

compounds. Novelos cannot give assurances that it will be able to obtain or maintain adequate product liability insurance on acceptable terms, if at all, or that such insurance will provide adequate coverage against its potential liabilities. Furthermore, Novelos's current and potential partners with whom it has collaborative agreements or its future licensees may not be willing to indemnify Novelos against these types of liabilities and may not themselves be sufficiently insured or have a net worth sufficient to satisfy any product liability claims. Claims or losses in excess of any product liability insurance coverage that may be obtained by Novelos could have a material adverse effect on its business, financial condition and results of operations.

NOVELOS'S LIMITED OPERATING HISTORY MAKES EVALUATING ITS STOCK MORE DIFFICULT, AND INVESTORS HAVE LIMITED INFORMATION UPON WHICH TO RELY.

An investor can only evaluate the Novelos's business based on a limited operating history. Since its inception, Novelos has engaged primarily in research and development, relied to a great extent on third-party efforts, sought avenues for licensing technology, seeking grants, raising capital and recruiting scientific and management personnel external to Novelos. It has not generated any meaningful revenue to date and has no licensing or royalty revenue or products ready for use or licensing in the marketplace. This limited history may not be adequate to enable an investor to fully assess Novelos's ability to develop its technologies and proposed products, obtain FDA approval and achieve market acceptance of the proposed products and respond to competition, or conduct such affairs as are presently contemplated.

EXECUTIVE OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS HAVE SUBSTANTIAL CONTROL OVER THE COMPANY, WHICH COULD DELAY OR PREVENT A CHANGE IN THE COMPANY'S CORPORATE CONTROL FAVORED BY THE COMPANY'S OTHER STOCKHOLDERS.

The Company's directors, officers and principal stockholders beneficially own, in the aggregate, approximately 45% of the Company's outstanding voting stock and will continue to own approximately 36% assuming the Maximum Offering is sold. They have the ability to determine the direction and decisions of the Company. The interests of the Company's current officers and directors may differ from the interests of other stockholders. As a result, these current officers and directors would have the ability to exercise control over all corporate actions requiring stockholder approval, irrespective of how the Company's other stockholders may vote, including the following actions:

- the election of directors;
- the amendment of charter documents;
- issuance of blank check preferred or convertible stock, notes or instruments of indebtedness, which may have conversion, liquidation and similar features and other financing arrangements; or

- the approval of certain mergers and other significant corporate transactions, including a sale of substantially all of the Company's assets, or merger with a publicly-traded shell or other company.

ACCEPTANCE OF NOVELOS'S PRODUCTS IN THE MARKETPLACE IS UNCERTAIN AND FAILURE TO ACHIEVE MARKET ACCEPTANCE WILL PREVENT OR DELAY ITS ABILITY TO GENERATE REVENUES.

Novelos's future financial performance will depend, at least in part, upon the introduction and customer acceptance of its proposed products. Even if approved for marketing by the necessary regulatory authorities, Novelos's products may not achieve market acceptance. The degree of market acceptance will depend upon a number of factors, including:

- the receipt of regulatory clearance of marketing claims for the uses that Novelos is developing;
- the establishment and demonstration of the advantages, safety and efficacy of Novelos's technologies;

- pricing and reimbursement policies of government and third-party payers such as insurance companies, health maintenance organizations and other health plan administrators;

- Novelos's ability to attract corporate partners, including pharmaceutical companies, to assist in commercializing Novelos's intended products; and

- Novelos's ability to market its products.

Physicians, patients, payers or the medical community in general may be unwilling to accept, utilize or recommend any of Novelos's products. If it is unable to obtain regulatory approval or commercialize and market its proposed products when planned, Novelos may not achieve any market acceptance or generate revenue.

NOVELOS MAY FACE LITIGATION FROM THIRD PARTIES WHICH CLAIM THAT ITS PRODUCTS INFRINGE ON THEIR INTELLECTUAL PROPERTY RIGHTS, PARTICULARLY BECAUSE THERE IS SUBSTANTIAL UNCERTAINTY ABOUT THE VALIDITY AND BREADTH OF MEDICAL PATENTS.

Novelos may be exposed to future litigation by third parties based on claims that its technologies, products or activities infringe the intellectual property rights of others or that Novelos has misappropriated the trade secrets of others. This risk is exacerbated by the fact that the validity and breadth of claims covered in medical technology patents and the breadth and scope of trade secret protection involve complex legal and factual questions for which important legal principles are unresolved. Any litigation or claims against Novelos, whether or not valid, could result in substantial costs, could place a significant strain on its financial and managerial resources and could harm its reputation. Most of Novelos's license agreements would likely require that it pay the costs associated with defending this type of litigation. In addition, intellectual property litigation or claims could force Novelos to do one or more of the following:

- cease selling, incorporating or using any of its technologies and/or products that incorporate the challenged intellectual property, which would adversely affect its future revenue;

- obtain a license from the holder of the infringed intellectual property right, which license may be costly or may not be available on reasonable terms, if at all; or

- redesign its products, which would be costly and time-consuming.

To date Novelos has not engaged in discussions, received any communications, nor does it have any reason to believe that any third party is challenging or has the sufficient legal basis to challenge its intellectual property rights.

CERTAIN UNIVERSITY AND OTHER RELATIONSHIPS ARE IMPORTANT TO NOVELOS'S BUSINESS AND ITS MANAGEMENT TEAM'S UNIVERSITY AND OTHER RELATIONSHIPS MAY POTENTIALLY RESULT IN CONFLICTS OF INTERESTS.

Dr. Kenneth Tew and Dr. Jeffrey Gelfand, among others, are critical advisors and consultants of Novelos and are associated with Medical University of South Carolina, Harvard Medical School and other institutions. Their association with these universities and institutions may currently or in the future involve conflicting interests.

IF NOVELOS IS UNABLE TO ADEQUATELY PROTECT OR ENFORCE ITS RIGHTS TO INTELLECTUAL PROPERTY OR SECURE RIGHTS TO THIRD-PARTY PATENTS, NOVELOS MAY LOSE VALUABLE RIGHTS, EXPERIENCE REDUCED MARKET SHARE, ASSUMING ANY, OR INCUR COSTLY LITIGATION TO PROTECT SUCH RIGHTS.

Novelos's ability to obtain licenses to patents, maintain trade secret protection and operate without infringing the proprietary rights of others will be important to its commercializing any products under development. Therefore, any disruption in access to the technology could substantially delay the

development of Novelos's technology.

The patent positions of biotechnology and pharmaceutical companies, including Novelos's, which involves licensing agreements, are frequently uncertain and involve complex legal and factual questions. In addition, the coverage claimed in a patent application can be significantly reduced before the patent is issued or in subsequent legal proceedings. Consequently, Novelos's patent applications and any issued and licensed patents may not provide protection against competitive technologies or may be held invalid if challenged or circumvented. Novelos's competitors may also independently develop products similar to Novelos's or design around or otherwise circumvent patents issued or licensed to Novelos. In addition, the laws of some foreign countries may not protect Novelos's proprietary rights to the same extent as U.S. law.

Novelos also relies upon trade secrets, technical know-how and continuing technological innovation to develop and maintain its competitive position. Novelos generally requires its employees, consultants, advisors and collaborators to execute appropriate confidentiality and assignment-of-inventions agreements. These agreements typically provide that all materials and confidential information developed or made known to the individual during the course of the individual's relationship with Novelos is to be kept confidential and not disclosed to third parties except in specific circumstances, and that all inventions arising out of the individual's relationship with Novelos shall be Novelos's exclusive property. These agreements may be breached, and in some instances, Novelos may not have an appropriate remedy available for breach of the agreements. Furthermore, Novelos's competitors may independently develop substantially equivalent proprietary information and techniques, reverse engineer Novelos's information and techniques, or otherwise gain access to Novelos's proprietary technology. Novelos may be unable to meaningfully protect its rights in trade secrets, technical know-how and other non-patented technology.

Although Novelos's trade secrets and technical know-how are important, its continued access to the patents is a significant factor in the development and commercialization of its products. Aside from the general body of scientific knowledge from other drug delivery processes and technology, these patents, to the best of Novelos's knowledge and based upon its current scientific data, are the only intellectual property necessary to develop Novelos's products, including NOV-002 and NOV-205. Novelos does not believe that it is or will be violating any patents in developing its technology.

Novelos may have to resort to litigation to protect its rights for certain intellectual property, or to determine their scope, validity or enforceability. Enforcing or defending Novelos's rights is expensive, could cause diversion of its resources and may not prove successful. Any failure to enforce or protect Novelos's rights could cause it to lose the ability to exclude others from using its technology to develop or sell competing products.

NOVELOS HAS LIMITED MANUFACTURING EXPERIENCE, AND ONCE ITS PRODUCTS ARE APPROVED IT MAY NOT BE ABLE TO MANUFACTURE SUFFICIENT QUANTITIES AT AN ACCEPTABLE COST, OR MAY BE SUBJECT TO RISK THAT CONTRACT MANUFACTURERS COULD EXPERIENCE SHUT-DOWNS OR DELAYS.

Novelos remains in the research and development and clinical and pre-clinical trial phase of product commercialization. Accordingly, once its products are approved for commercial sale it will need to establish the capability to commercially manufacture its product(s) in accordance with FDA and other regulatory requirements. Novelos has limited experience in establishing, supervising and conducting commercial manufacturing. If Novelos fails to adequately establish, supervise and conduct all aspects of the manufacturing processes, it may not be able to commercialize its products.

Novelos presently plans to rely on third party contractors to manufacture its products. This may expose it to the risk of not being able to directly oversee the production and quality of the manufacturing process. Furthermore, these contractors, whether foreign or domestic, may experience regulatory compliance difficulty, mechanical shut-downs, employee strikes or other unforeseeable acts that may delay production.

DUE TO NOVELOS'S LIMITED MARKETING, SALES AND DISTRIBUTION EXPERIENCE, IT MAY BE

UNSUCCESSFUL IN ITS EFFORTS TO SELL ITS PRODUCTS, ENTER INTO RELATIONSHIPS WITH THIRD PARTIES OR DEVELOP A DIRECT SALES ORGANIZATION.

Novelos has not yet had to establish marketing, sales or distribution capabilities for its proposed products. Until such time as its products are further along in the regulatory process, it will not devote any meaningful time and resources to this effort. At the appropriate time, Novelos intends to enter into agreements with third parties to sell its products, or it may develop its own sales and marketing force. Novelos may be unable to establish or maintain third-party relationships on a commercially reasonable basis, if at all. In addition, these third parties may have similar or more established relationships with Novelos's competitors.

If Novelos does not enter into relationships with third parties for the sales and marketing of its products, it will need to develop its own sales and marketing capabilities. Novelos has limited experience in developing, training or managing a sales force. If Novelos chooses to establish a direct sales force, it may incur substantial additional expenses in developing, training and managing such an organization. Novelos may be unable to build a sales force on a cost effective basis or at all. Any such direct marketing and sales efforts may prove to be unsuccessful. In addition, Novelos will compete with many other companies that currently have extensive marketing and sales operations. Its marketing and sales efforts may be unable to compete against these other companies. Novelos may be unable to establish a sufficient sales and marketing organization on a timely basis, if at all.

Novelos may be unable to engage qualified distributors. Even if engaged, these distributors may:

- fail to satisfy financial or contractual obligations to Novelos;
- fail to adequately market Novelos's products;
- cease operations with little or no notice; or
- offer, design, manufacture or promote competing products.

If Novelos fails to develop sales, marketing and distribution channels, it would experience delays in product sales and incur increased costs, which would harm its financial results.

IF NOVELOS IS UNABLE TO CONVINCE PHYSICIANS AS TO THE BENEFITS OF ITS INTENDED PRODUCTS, IT MAY INCUR DELAYS OR ADDITIONAL EXPENSE IN ITS ATTEMPT TO ESTABLISH MARKET ACCEPTANCE.

Broad use of Novelos's products may require physicians to be informed regarding these products and their intended benefits. The time and cost of such an educational process may be substantial. Inability to successfully carry out this physician education process may adversely affect market acceptance of Novelos's products. Novelos may be unable to timely educate physicians regarding its intended products in sufficient numbers to achieve its marketing plans or to achieve product acceptance. Any delay in physician education may materially delay or reduce demand for Novelos's products. In addition, Novelos may expend significant funds towards physician education before any acceptance or demand for its products is created, if at all.

NOVELOS MAY HAVE DIFFICULTY RAISING NEEDED CAPITAL IN THE FUTURE BECAUSE OF ITS LIMITED OPERATING HISTORY AND BUSINESS RISKS ASSOCIATED WITH NOVELOS.

Novelos currently generates no revenue from its proposed products or otherwise. Itdoes not know when this will change. It has expended and will continue to expend substantial funds in the research, development and clinical and pre-clinical testing of its drug compounds. Novelos will require additional funds to conduct research and development, establish and conduct clinical and pre-clinical trials, establish commercial-scale manufacturing arrangements and provide for the marketing and distribution of its products. Additional funds may not be available on acceptable terms, if at all. If adequate funds are unavailable from any available source, Novelos may have to delay, reduce the scope of or eliminate one or more of its research or development programs or

product launches or marketing efforts, which may materially harm its business, financial condition and results of operations.

Novelos's long-term capital requirements are expected to depend on many factors, including:

- the number of potential products and technologies in development;
- continued progress and cost of the Novelos's research and development programs;
- progress with pre-clinical studies and clinical trials;
- the time and costs involved in obtaining regulatory clearance;
- costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims;
- costs of developing sales, marketing and distribution channels and Novelos's ability to sell its drugs;
- costs involved in establishing manufacturing capabilities for clinical trial and commercial quantities of Novelos's drugs;
- competing technological and market developments;
- market acceptance for Novelos's products;
- costs for recruiting and retaining management, employees and consultants; and
- costs for training physicians

Novelos may consume available resources more rapidly than currently anticipated, resulting in the need for additional funding. The Company may seek to raise any necessary additional funds through the exercising of warrants, equity or debt financings, collaborative arrangements with corporate partners or other sources, which may be dilutive to existing stockholders or otherwise have a material effect on the Company's current or future business prospects. In addition, in the event that additional funds are obtained through arrangements with collaborative partners or other sources, Novelos may have to relinquish economic and/or proprietary rights to some of its technologies or products under development that it would otherwise seek to develop or commercialize by itself. If adequate funds are not available, Novelos may be required to significantly reduce or refocus its development efforts with regard to its drug compounds.

THE MARKET FOR NOVELOS'S PRODUCTS IS RAPIDLY CHANGING AND COMPETITIVE, AND NEW THERAPEUTICS, NEW DRUGS AND NEW TREATMENTS WHICH MAY BE DEVELOPED BY OTHERS COULD IMPAIR NOVELOS'S ABILITY TO MAINTAIN AND GROW ITS BUSINESS AND REMAIN COMPETITIVE.

The pharmaceutical and biotechnology industries are subject to rapid and substantial technological change. Developments by others may render Novelos's technologies and intended products noncompetitive or obsolete, or Novelos may be unable to keep pace with technological developments or other market factors. Technological competition from pharmaceutical and biotechnology companies, universities, governmental entities and others diversifying into the field is intense and is expected to increase. Many of these entities have significantly greater research and development capabilities and budgets than Novelos does, as well as substantially more marketing, manufacturing, financial and managerial resources. These entities represent significant competition for Novelos. Acquisitions of, or investments in, competing pharmaceutical or biotechnology companies by large corporations could increase such competitors' financial, marketing, manufacturing and other resources.

Novelos is a development-stage enterprise that has heretofore operated

with limited day-to-day business management, operating as a vehicle to hold certain technology for possible future exploration, and has been and will continue to be engaged in the development of new drugs and therapeutic technologies. As a result, Novelos's resources are limited and it may experience management, operational or technical challenges inherent in such activities and novel technologies. Competitors have developed or are in the process of developing technologies that are, or in the future may be, the basis for competition. Some of these technologies may have an entirely different approach or means of accomplishing similar therapeutic effects compared to Novelos's technology. Novelos's competitors may develop drug delivery technologies and drugs that are more effective than Novelos's intended products and, therefore, present a serious competitive threat to Novelos.

The potential widespread acceptance of therapies that are alternatives to Novelos's may limit market acceptance of Novelos's products even if commercialized. Many of Novelos's targeted diseases and conditions can also be treated by other medication or drug delivery technologies. These treatments may be widely accepted in medical communities and have a longer history of use. The established use of these competitive drugs may limit the potential for Novelos's technologies and products to receive widespread acceptance if commercialized.

IF USERS OF NOVELOS'S PRODUCTS ARE UNABLE TO OBTAIN ADEQUATE REIMBURSEMENT FROM THIRD-PARTY PAYERS, OR IF NEW RESTRICTIVE LEGISLATION IS ADOPTED, MARKET ACCEPTANCE OF NOVELOS'S PRODUCTS MAY BE LIMITED AND IT MAY NOT ACHIEVE ANTICIPATED REVENUES.

The continuing efforts of government and insurance companies, health maintenance organizations and other payers of healthcare costs to contain or reduce costs of health care may affect Novelos's future revenues and profitability, and the future revenues and profitability of Novelos's potential customers, suppliers and collaborative partners and the availability of capital. For example, in certain foreign markets, pricing or profitability of prescription pharmaceuticals is subject to government control. In the United States, given recent federal and state government initiatives directed at lowering the total cost of health care, the U.S. Congress and state legislatures will likely continue to focus on health care reform, the cost of prescription pharmaceuticals and on the reform of the Medicare and Medicaid systems. While Novelos cannot predict whether any such legislative or regulatory proposals will be adopted, the announcement or adoption of such proposals could materially harm Novelos's business, financial condition and results of operations.

Novelos's ability to commercialize its products will depend in part on the extent to which appropriate reimbursement levels for the cost of its products and related treatment are obtained by governmental authorities, private health insurers and other organizations, such as health maintenance organizations ("HMO's"). Third-party payers are increasingly challenging the prices charged for medical drugs and services. Also, the trend toward managed health care in the United States and the concurrent growth of organizations such as HMO's, which could control or significantly influence the purchase of health care services and drugs, as well as legislative proposals to reform health care or reduce government insurance programs, may all result in lower prices for or rejection of Novelos's drugs. The cost containment measures that health care payers and providers are instituting and the effect of any health care reform could materially harm Novelos's ability to operate profitably.

NOVELOS DEPENDS UPON KEY PERSONNEL WHO MAY TERMINATE THEIR EMPLOYMENT WITH IT AT ANY TIME, AND NOVELOS WILL NEED TO HIRE ADDITIONAL QUALIFIED PERSONNEL.

Novelos's success will depend to a significant degree upon the continued services of its key management and advisors, including Harry Palmin, Dr. Kenneth Tew and Dr. Jeffrey Gelfand. These individuals do not have long-term employment agreements with Novelos, and there can be no assurance that they will continue to provide service to it. In addition, Novelos's success will depend on its ability to attract and retain other highly skilled personnel. It may be unable to recruit such personnel on a timely basis, if at all. Its management and other employees may voluntarily terminate their employment with Novelos at any time. The loss of services of key personnel, or the inability to attract and retain additional qualified personnel, could result in delays in development or approval of Novelos's products, loss of sales and diversion of management resources.

FORWARD LOOKING STATEMENTS

This Current Report on Form 8-K contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, many of which are beyond the Company's control. The Company's actual results could differ materially and adversely from those anticipated in such forward-looking statements as a result of certain factors. Important factors that may cause actual results to differ from projections include, but are not limited to, those set forth above under "Cautionary Statements."

In some cases, investors can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "proposed," "intended," "continue" or "objectives" or the negative of these terms or other comparable terminology. Investors should read statements that contain these words carefully, because they discuss the Company's expectations about the Company's future operating results or prospects or the Company's future financial condition or state other "forward-looking" information. There may be events in the future that the Company is not able to accurately predict or control. Investors and potential investos should be aware that the occurrence of any of the events described elsewhere in this Current Report on Form 8-K could substantially harm the Company's business, results of operations and financial condition, and that upon the occurrence of any of these events, the value of the Company's securities could decline, and investors could lose all or part of their investment.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, growth rates, levels of activity, performance, or achievements.

ITEM 3.02 UNREGISTERED SALES OF EQUITY SECURITIES.

The issuances described below were made by the Company in reliance upon the exemptions from registration provided under Section 4(2) of the Securities Act of 1933, as amended, and/or Regulation D promulgated thereunder.

As described in Items 1.01 and 2.01, on May 27, 2005 (i.e., the Initial Closing), the Company sold 87 Units to accredited investors pursuant to a Confidential Private Placement Memorandum, as amended. Each Unit consists of 20,000 shares of Company Common Stock and three-year warrants to purchase 10,000 shares of Company Common Stock at a purchase price equal to $2.25 per share. The Units were offered directly by the Company and with the assistance of a Placement Agent. In connection with the sale of Units, the Placement Agent is entitled to receive a selling commission equal to 8% of the gross proceeds of the Units sold by the Placement Agent, a non-accountable expense allowance equal to 2% of the gross proceeds of the total Units sold, warrants to purchase 10% of the shares of Common Stock sold by the Placement Agent at a purchase price of $2.00 per share and up to 250,000 shares of Common Stock. As consideration for the Units, the Company received gross cash proceeds of $1,725,000, and three investors converted the $450,000 principal amount outstanding on certain promissory notes issued by Novelos.

Additionally, in connection with the Merger, the Company issued 19,093,701 shares of Common Stock in exchange for the capital stock of Novelos.

ITEM 5.01 CHANGES IN CONTROL OF REGISTRANT

As described in Item 2.01 above, a change in control of the Company occurred as a result of the Merger. In connection with the Merger, stockholders of Novelos have exchanged their shares of common stock of Novelos for Company Common Stock. Accordingly, immediately following the Merger, stockholders of Novelos own a majority of the outstanding shares of the Company's Common Stock. The information provided in Item 2.01 is incorporated herein by reference.

The following tables set forth beneficial ownership of Company Common Stock as of May 27, 2005 by: (i) each director and executive officer of the Company (including options, warrants or other rights exercisable within 60

days); (ii) all officers and executive officers, as a group, and (iii) all persons known by the Company to own more than 5% of the Company's Common Stock. The address of each beneficial owner other than Ms. Chassman and Wood River Trust is c/o the Company, One Gateway Center, Suite 504, Newton, MA 02458.

AT MAXIMUM OFFERING:

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES OWNED	PERCENTAGE
Harry S. Palmin (1)	1,000,948	3.1%
Simyon Palmin (2)	2,226,765	6.9%
Mark Balazovsky (3)	1,472,871	4.6%
David McWilliams (4)	152,778	0.5%
Sim Fass (5)	100,000	0.3%
Howard Schneider (6)	100,000	0.3%
Margie Chassman (7)	2,475,000	7.8%
Wood River Trust (8)	3,850,000	12.1%
All directors and executive officers as a group (7 persons) (9)	5,053,363	15.1%

AT MINIMUM OFFERING:

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES OWNED	PERCENTAGE
Harry S. Palmin (1)	1,000,948	3.8%
Simyon Palmin (2)	2,226,765	8.6%
Mark Balazovsky (3)	1,472,871	5.8%
David McWilliams (4)	152,778	0.6%
Sim Fass (5)	100,000	0.4%
Howard Schneider (6)	100,000	0.4%
Margie Chassman (7)	2,475,000	9.7%
Wood River Trust (8)	3,850,000	15.2%
All Directos and Executive Officers as a Group (7 persons)(9)	5,053,363	18.7%

(1) Includes 737,130 shares issuable upon exercise of stock options.

(2) Includes 487,826 shares issuable upon exercise of stock options.

(3) Includes 20,000 shares issuable upon exercise of stock options.

(4) Consists of 152,778 shares issuable upon exercise of stock options.

(5) Consists of 100,000 shares issuable upon exercise of stock options.

(6) Consists of 100,000 shares issuable upon exercise of stock options.

(7) Margie Chassman is married to David Blech. Mr. Blech disclaims beneficial ownership of these shares. In 1990 Mr. Blech founded D. Blech & Company, which, until it ceased doing business in September 1994, was a registered broker-dealer involved in underwriting biotechnology issues. In May 1998, David Blech pled guilty to two counts of criminal securities fraud, and, in September 1999, he was sentenced by the U.S. District Court for the Southern District of New York to five years' probation, which was completed in September 2004. Mr. Blech also settled administrative charges by the

Commission in December 2000 arising out of the collapse in 1994 of D. Blech & Co., of which Mr. Blech was President and sole stockholder. The settlement prohibits Mr. Blech from engaging in future violations of the federal securities laws and from association with any broker-dealer. In addition, the District Business Conduct Committee for District No.10 of NASD Regulation, Inc. reached a decision, dated December 3, 1996, in a matter styled District Business Conduct Committee for District No. 10 v. David Blech, regarding the alleged failure of Mr. Blech to respond to requests by the staff of the National Association of Securities Dealers, Inc. ("NASD") for documents and information in connection with seven customer complaints against various registered representatives of D. Blech & Co. The decision found that Mr. Blech failed to respond to such requests in violation of NASD rules and that Mr. Blech should, therefore, be censured, fined $20,000 and barred from associating with any member firm in any capacity. Furthermore, Mr. Blech was discharged in bankruptcy in the United States Bankruptcy Court for the Southern District of New York in March 2000.

(8) The address of Wood River Trust is c/o Michael C. Doyle, Co-Trustee, c/o Stewart Management Company, 1410 Nemours Building, 1007 Orange Street, Wilmington, Delaware 19801.

(9) Includes 1,597,734 shares issuable upon exercise of stock options.

ITEM 5.02 DEPARTURE OF DIRECTORS OR PRINCIPAL OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF PRINCIPAL OFFICERS.

In connection with the Merger, the Company's director, Edward Panos, resigned. Additionally, the Company's sole officer, Edward Panos, President, Chief Executive Officer, Treasurer and Principal Accounting Officer Secretary, resigned from all positions with the Company.

The following table sets forth information regarding the new members of the Company's Board of Directors and its executive officers following the Merger:

NAME	POSITION
Harry S. Palmin	President, Acting CEO, CFO, Director
Simyon Palmin	Chairman of the Board, Director of Russian Relations
Mark Balazovsky	Director
Sim Fass, Ph.D.	Director
David B. McWilliams	Director
Howard M. Schneider	Director

HARRY S. PALMIN, PRESIDENT, ACTING CEO, CFO, DIRECTOR. Mr. Palmin has been President, CFO and Director of Novelos since 1998, heading up Novelos' operations, finance, business development, as well as overseeing clinical development. Prior to joining Novelos, Mr. Palmin was Vice President at Lehman Brothers from 1996 to 1998 and was responsible for sales, product and risk management in Private Client Services. He was an Associate at Morgan Stanley & Co. from 1993 to 1996. Mr. Palmin has a B.A. degree in Economics and Business, magna cum laude, and an M.A. degree in International Economics and Finance from the International Business School at Brandeis University. He studied at the London School of Economics and the Copenhagen Business School. Mr. Palmin is fluent in Russian and English.

SIMYON PALMIN, CHAIRMAN OF THE BOARD OF DIRECTORS, DIRECTOR OF RUSSIAN RELATIONS. Mr. Palmin founded Novelos in 1996. He has over 40 years of business

experience in Russia and the United States. Since 1989, Mr. Palmin has been a Partner of Kent International Ltd. and RAMEC Invest, venture capital and business development companies that make investments in Russian Federation companies, including ZAO BAM. From 1984 to 1998, Mr. Palmin was Vice President Strategic Planning and Vice President New Product Development of Design Components Inc., a factory automation company. Mr. Palmin received a Bachelor of Science degree in Naval Instrumentation from St. Petersburg Navy Institute, St. Petersburg, Russia and a Master of Aviation degree in Aviation Instrumentation from the Institute of Aviation Instrumentation, St. Petersburg, Russia. He completed the studies for a Ph.D. in Electrical Engineering. Mr. Palmin has been granted 11 Russian patents and four U.S. patents in automation, and has numerous publications in the field. Mr. Palmin is fluent in Russian and English.

MARK B. BALAZOVSKY, DIRECTOR. Mr. Balazovsky founded ZAO BAM, a Russian pharmaceutical company carrying out research, development and commercialization of drugs derived from oxidized glutathione, in 1992. Since then, Mr. Balazovsky has been General Director of ZAO BAM. Since 1993, Mr. Balazovsky has also been President of the Foundation for Medical-Pharmaceutical Programs, which was founded by 26 leading research and development and clinical organizations in the Russian Federation. Mr. Balazovsky is also Chairman of the Board of Uyut, a company he joined in 1975. Uyut was one of the first state-owned real estate rental companies in St. Petersburg, Russia and subsequently became a private company. Mr. Balazovsky was employed by the Radio-Technical Research and Development Facility from 1965 to 1975 as an engineer and Deputy Chief Designer. While holding these positions, he contributed to the development of a deep-space radionavigation system. From 1960 to 1965, he was employed at the Research and Development Facility of long-range communications as an engineer. Mr. Balazovsky holds Bachelor of Science and Master of Science degrees in Radiocommunications and Radiobroadcasting from the Institute of Communications, St. Petersburg, Russia.

SIM FASS, PH.D., DIRECTOR. Dr. Fass has 35 years of senior pharmaceutical management experience. He retired from Savient Pharmaceuticals (SVNT; formerly Bio-Technology General Corp) after a 21 year tenure in which he served as CEO and Chairman from 1997-2004; President and CEO from 1984-1997; and COO from 1983-1984. Savient develops and commercializes specialty pharmaceuticals, some of which are genetically engineered. Under Dr. Fass' leadership, Savient achieved revenues in excess of $100 million in 2004. From 1980-1983, Dr. Fass was Vice President and General Manager of Wampole Laboratories, a division of Carter Wallace focusing on diagnostics of infectious diseases, immune-related disorders and reproduction. From 1969-1980, he held a number of marketing, sales and senior management positions at Pfizer, Inc in both pharmaceuticals and diagnostics. He received a BS degree in biology and chemistry from Yeshiva College and a doctoral degree in developmental biology/biochemistry from the Massachusetts Institute of Technology.

DAVID B. MCWILLIAMS, DIRECTOR. Mr. McWilliams is currently CEO of PharmaFrontiers Corp (PFTR). He has over 30 years of experience building public and private biopharmaceutical / healthcare companies. Since 1992, as an investor and CEO, Mr. McWilliams has led several companies at key points of their development. Most notably, he was President, CEO and Director of Encysive Pharmaceuticals (ENCY). At Encysive, he raised $250 million in public financings and corporate partnerships. Under his leadership the company developed, licensed, and received FDA approval in 2000 for an anticoagulant, Argatroban, which is currently marketed by Glaxo Smith Kline. From 1980 to 1992, Mr. McWilliams was President and CEO of several healthcare companies. From 1972 to 1980, he was an executive at Abbott Laboratories, rising to General Manager for South Africa. Previously, he was a management consultant at McKinsey & Co. Mr. McWilliams received an MBA in Finance from the University of Chicago, and B.A. in Chemistry, Phi Beta Kappa, from Washington and Jefferson College. Mr. McWilliams has been a Director of Texas Health Plan, GenTrans Technology, Zonagen (ZONA), Encysive Pharmaceuticals (ENCY), DIFCO Laboratories and Structural Bioinformatics. He is currently a Director of Fairway Medical Technologies, Houston Technology Center, and Texas Healthcare and Bioscience Institute.

HOWARD M. SCHNEIDER, DIRECTOR. Mr. Schneider has over 35 years experience as a senior financial industry executive and more recently as president of two technology start-ups. He was an executive with Bankers Trust Company from 1965-1999, where he was President of BT Securities Corporation for ten years,

taking this corporate vehicle from 2 employees to 900, with annual revenues in excess of $1 billion. Mr. Schneider has provided testimony and lobbied before Congress and the executive branch on numerous occasions. Mr. Schneider served as a director of Penril DataComm, a NASDAQ-listed company, from 1988 until its successful sale in 1996. During the last four years of that tenure, he was also chairman of the audit committee. He is an active volunteer with community and educational institutions. Mr. Schneider received an AB magna cum laude in Economics from Harvard College, and received an MBA with distinction from New York University.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements

Annexed hereto as Exhibit 3 are financial statements for Novelos Therapeutics, Inc. as at December 31, 2004 and for the period then ended. Concurrently with the closing of the Merger and the Initial Closing, Novelos completed a restructuring of its balance sheet (the "Recapitalization"). Pursuant to the Recapitalization, the existing creditors of Novelos holding approximately $4.4 million of obligations of Novelos agreed to convert those obligations into approximately 2,560,000 shares of Common Stock and cash payments of approximately $470,000, some of which were payable at the Initial Closing and the balance of which will be payable out of the proceeds of subsequent closings or other funds available to the Company. In addition, certain of the creditors and other parties, including The Oxford Group, will receive royalty rights with respect to Novelos's products equal in the aggregate to 2% of the revenues generated by Novelos on its oxidized glutathione products for the life of the related patents held by Novelos. After giving effect to the Recapitalization, Novelos has eliminated substantially all of the liabilities shown on its balance sheet at December 31, 2004.

In accordance with Instruction 4 of this Item 9.01, any additional financial statements and pro forma information required by this Item will be filed by an amendment to this Current Report as soon as practicable but in no event later than 71 days after the filing of this Current Report.

(b) Exhibits

Exhibit	Description
1.	Form of Securities Purchase Agreement
2.	Agreement and Plan of Merger among Common Horizons, Inc., Nove Acquisition, Inc. and Novelos Therapeutics, Inc. dated May 26, 2005
3.	Financial Statements of Novelos Therapeutics, Inc.

SIGNATURES

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

Dated: June 2, 2005

COMMON HORIZONS, INC.

By: /s/ HARRY S. PALMIN

Its: Chief Executive Officer

EXHIBIT INDEX

Exhibit	Description
1.	Form of Securities Purchase Agreement
2	Agreement and Plan of Merger among Common Horizons, Inc., Nove Acquisition, Inc. and Novelos Therapeutics, Inc. dated May 26, 2005
3.	Financial Statements of Novelos Therapeutics, Inc.

ANNEX A

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (this "Agreement") is dated as of May __, 2005 among Novelos Therapeutics, Inc., a Delaware corporation (the "Company"), Common Horizons, Inc., a Nevada corporation (the "Holding Company"), each purchaser identified on the signature pages hereto (each, including its successors and assigns, a "Purchaser" and collectively the "Purchasers").

WHEREAS, subject to the terms and conditions set forth in this Agreement and pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act") and Rule 506 promulgated thereunder, the Holding Company desires to issue and sell to each Purchaser, and each Purchaser, severally and not jointly, desires to purchase from the Holding Company, in the aggregate, up to $11,500,000 of Common Stock and Warrants on the Closing Date.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company, the Holding Company and each Purchaser agree as follows:

ARTICLE I.
DEFINITIONS

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement, for all purposes of this Agreement, the following terms have the meanings indicated in this Section 1.1:

"Action" shall have the meaning ascribed to such term in Section 3.1(j).

"Additional Closing" shall have the meaning ascribed to such term in Section 2.1 hereof.

"Additional Closing Date" means the date of each Additional Closing.

"Affiliate" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 144. With respect to a Purchaser, any investment fund or managed account that is managed on a discretionary basis by the same investment manager as such Purchaser will be deemed to be an Affiliate of such Purchaser.

"Closing Date(s)" means the date of the First Closing which shall occur on the Reverse Merger Effective Date and each Additional Closing.

"Closing Price" means on any particular date (a) the last reported closing sale price per share, or, if not available, then the average of the last reported bid and asked prices of Common Stock on such date on the Trading Market (as reported by Bloomberg L.P. at 4:15 PM (New York time) as the last reported closing sale price (or bid and asked prices) for regular session trading on such day), or (b) if there is no such price on such date, then the closing sale price, or, if not available, then the average of the average of the closing bid and asked prices, on the Trading Market on the date nearest preceding such date (as reported by Bloomberg L.P. at 4:15 PM (New York time) as the closing sale price (or bid and asked prices) for regular session trading on such day), or (c) if the Common Stock is not then listed or quoted on the Trading Market and if prices for the Common Stock are then reported in the "pink sheets" published by the National Quotation Bureau Incorporated (or a similar organization or agency succeeding to its functions of reporting prices), the most recent sale price per share of the Common Stock so reported or, if not available, the average of the most recent bid and asked prices reported, or (d) if the shares

of Common Stock are not then publicly traded the fair market value of a share of Common Stock as determined by an appraiser selected in good faith by the Purchasers of a majority in interest of the Shares then outstanding.

"Closing(s)" means collectively, the closings of the purchase and sale of the Securities pursuant to Section 2.1, and any reference to "Closing" or "Closings" shall be construed to include the First Closing and each Additional Closing unless only one such closing is expressly referred to.

"Commission" means the Securities and Exchange Commission.

"Common Stock" means the common stock of the Holding Company, par value $0.001 per share, and any other class of securities into which such securities may hereafter have been reclassified or changed.

"Common Stock Equivalents" means any securities of the Holding Company or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Stock, including without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

"Effective Date" means the date that the Registration Statement is first declared effective by the Commission.

"Escrow Agent" means Signature Bank, a New York State chartered bank and having an office at, 261 Madison Avenue, New York, New York 10016.

"Escrow Agreement" shall mean the Escrow Agreement, dated April __, 2005, by and among vFinance Investments, Inc., the Company and the Escrow Agent pursuant to which the Purchasers, prior to the date hereof, deposited Subscription Amounts with the Escrow Agent to be applied to the transactions contemplated hereunder.

"Evaluation Date" shall have the meaning ascribed to such term in Section 3.1(r).

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Exempt Issuance" means the issuance of (a) shares of Common Stock or options to employees, officers or directors of the Holding Company pursuant to any stock or option plan duly adopted by a majority of the non-employee members of the Board of Directors of the Holding Company or a majority of the members of a committee of non-employee directors established for such purpose, (b) securities upon the exercise of or conversion of any Securities issued hereunder, convertible securities, options or warrants issued and outstanding on the First Closing Date, provided that such securities have not been amended since the First Closing Date to increase the number of such securities or to decrease the exercise or conversion price of any such securities, (c) securities issued pursuant to acquisitions or strategic transactions, provided any such issuance shall only be to a Person which is, itself or through its subsidiaries, an operating company in a business synergistic with the business of the Holding Company and in which the Holding Company receives benefits in addition to the investment of funds, but shall not include a transaction in which the Holding Company is issuing securities primarily for the purpose of raising capital or to an entity whose primary business is investing in securities and (d) securities issued on the same terms and condition as the transactions consummated hereunder in a Subsequent Closing.

"First Closing" shall have the meaning ascribed to such term in Section 2.1 hereof.

"First Closing Date" means the date of the First Closing.

"FW" means Feldman Weinstein LLP with offices at 420 Lexington Avenue, Suite 2620, New York, New York 10170-0002.

"GAAP" shall have the meaning ascribed to such term in Section 3.1(h).

"Intellectual Property Rights" shall have the meaning ascribed to such term in Section 3.1(o).

"Legend Removal Date" shall have the meaning ascribed to such term in Section 4.1(c).

"Liens" means a lien, charge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

"Material Adverse Effect" shall have the meaning ascribed to such term in Section 3.1(b).

"Material Permits" shall have the meaning ascribed to such term in Section 3.1(m).

"Memorandum" shall mean that certain Confidential Private Placement Memorandum for Accredited Investors Only of Novelos Therapeutics Inc., dated April __, 2005, as amended and supplemented through each Closing Date.

"Per Share Purchase Price" equals $1.25, subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the Common Stock that occur after the date of this Agreement.

"Person" means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

"Proceeding" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"Purchaser Party" shall have the meaning ascribed to such term in Section 4.8.

"Registration Rights Agreement" means the Registration Rights Agreement, dated the First Closing Date, among the Holding Company and the Purchasers, in the form of Exhibit A attached hereto.

"Registration Statement" means a registration statement meeting the requirements set forth in the Registration Rights Agreement and covering the resale by the Purchasers of the Shares and the Warrant Shares.

"Required Approvals" shall have the meaning ascribed to such term in Section 3.1(e).

"Reverse Merger" means the reverse merger that the Company shall complete by the date hereof whereby Novo Acquisition, Inc., a wholly-owned subsidiary of the Holding Company, will merge into the Company, pursuant to which all outstanding securities of the Company will be exchanged for securities of the Holding Company, and the Common Stock shall be listed on a Trading Market.

"Reverse Merger Effective Date" means such date as the Reverse Merger becomes binding and effective on the Company and the Holding Company.

"Rule 144" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"SEC Reports" shall have the meaning ascribed to such term in Section 3.1(h).

"Securities" means the Shares, the Warrants and the Warrant Shares.

"Securities Act" means the Securities Act of 1933, as amended.

"Shares" means the shares of Common Stock issued or issuable to each Purchaser pursuant to this Agreement.

"Short Sales" shall include all "short sales" as defined in Rule 200 of Regulation SHO under the Exchange Act.

"Subscription Amount" means, as to each Purchaser, the aggregate amount to be paid for Shares and Warrants purchased hereunder as specified below such Purchaser's name on the signature page of this Agreement and next to the heading "Subscription Amount", in United States Dollars and in immediately available funds, which shall not be less than $25,000 for any Purchaser.

"Subsidiary" shall mean any subsidiary of the Holding Company, including but not limited to, the Company.

"Trading Day" means a day on which the Common Stock is traded on a Trading Market

"Trading Market" means the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the OTC Bulletin Board, the "Pink Sheets" published by Pink Sheets, LLC, the Nasdaq SmallCap Market, the American Stock Exchange, the New York Stock Exchange or the Nasdaq National Market.

"Transaction Documents" means this Agreement, the Warrants, the Escrow Agreement, the Registration Rights Agreement, the Memorandum and any other documents or agreements executed in connection with the transactions contemplated hereunder.

"vFinance" shall mean vFinance Investments, Inc., the lead placement agent to the transactions contemplated hereunder.

"Warrants" means the Common Stock Purchase Warrants, in the form of Exhibit B, delivered to the Purchasers at the applicable Closing in accordance with Section 2.2(a)(iii) hereof, which warrants shall be exercisable immediately upon issuance and until the three year anniversary of the final Closing Date and have an exercise price per share of Common Stock equal to $2.25, subject to adjustment as provided therein.

"Warrant Shares" means the shares of Common Stock issuable upon exercise of the Warrants.

ARTICLE II.
PURCHASE AND SALE

2.1 Closing. On each Closing Date, upon the terms and subject to the conditions set forth herein, concurrent with the execution and delivery of this Agreement by the parties hereto, the Holding Company agrees to sell, and each Purchaser agrees to purchase, in the aggregate among all Closings, severally and not jointly with the other Purchasers, up to $11,500,000 of Shares and Warrants (the "Maximum Amount"), of which up to $1,500,000,

including the Bridge Proceeds as hereinafter defined, may be placed directly by the Company, but no less than $2,000,000 in the aggregate, including in each

case the $450,000 of proceeds (the "Bridge Proceeds") of the bridge financing completed by the Company in March 2005. There shall be one or more Closings as set forth below (respectively, the "First Closing" and "Additional Closing(s)"). Upon satisfaction of the conditions set forth in Section 2.2, as determined by the Company and vFinance, each Closing shall occur at the offices of FW, or such other location as the parties shall mutually agree and the Company and vFinance shall deliver to the Escrow Agent the Form of Escrow Release Notice (as defined in the Escrow Agreement), duly executed.

a) First Closing. The First Closing shall be for an aggregate Subscription Amount of up to $2,000,000 (including the Bridge Proceeds) and shall occur within 5 Trading Days of the date hereof.

b) Additional Closings. After the First Closing, the Holding Company may hold Additional Closings with vFinance as the sole placement agent on the same terms, conditions and prices as the First Closing until the Maximum Amount has been sold, provided that each Additional Closing shall occur on or before July 31, 2005.

2.2 Deliveries.

a) At or prior to each Closing Date (except as noted), the Company and the Holding Company shall deliver or cause to be delivered pursuant to the written instructions of vFinance the following:

(i) a counterpart of this Agreement duly executed by each of the Company and the Holding Company;

(ii) a copy of the irrevocable instructions to the Company's transfer agent instructing the transfer agent to deliver, on an expedited basis, a certificate evidencing a number of Shares equal to such Purchaser's Subscription Amount divided by the Per Share Purchase Price, registered in the name of such Purchaser;

(iii) a Warrant, registered in the name of such Purchaser, pursuant to which such Purchaser shall have the right to acquire up to the number of shares of Common Stock equal to 50% of the Shares to be issued to such Purchaser;

(iv) a counterpart of the Registration Rights Agreement duly executed by the Holding Company;

(v) a Memorandum and one or more supplements incorporating the terms of the Reverse Merger;

(vi) as to the First Closing, a copy of the legal opinion delivered by counsel to the Holding Company and Company in connection with

the Reverse Merger and other matters related to the transactions contemplated by this Agreement, in the form of Exhibit C, which opinion shall be reasonably satisfactory to each Purchaser, and as to each subsequent Closing a letter from such counsel bringing down such opinion to the date of such Closing; and

(vii) the Lock-Up Agreement, in the form attached hereto as Exhibit D, executed by the stockholders identified in the Memorandum (as to the First Closing only) and Schedule D-1 which identifies (A) each stockholder who will enter into such agreement, (B) the number of shares of Common Stock for such stockholder and (C) the time period of the lock-up for such stockholder.

b) At or prior to each Closing Date, each Purchaser shall deliver or cause to be delivered to FW the following:

(i) a counterpart of this Agreement duly executed by such Purchaser;

(ii) such Purchaser's Subscription Amount as to the applicable Closing by wire transfer to the Escrow Agent; and

(iii) a counterpart of the Registration Rights Agreement duly executed by such Purchaser.

2.3 Closing Conditions.

a) The obligations of the Company and the Holding Company hereunder in connection with each Closing are subject to the following conditions being met:

(i) the accuracy in all material respects when made and on the applicable Closing Date of the representations and warranties of the Purchasers contained herein;

(ii) all obligations, covenants and agreements of the Purchasers required to be performed at or prior to the applicable Closing Date shall have been performed; and

(iii) the delivery by the Purchasers of the items set forth in Section 2.2(b) of this Agreement.

b) The respective obligations of each Purchaser hereunder in connection with their respective Closing are subject to the following conditions being met:

(i) the accuracy in all material respects on the applicable Closing Date of the representations and warranties of the Company and the Holding Company contained herein;

(ii) all obligations, covenants and agreements of the Company and the Holding Company required to be performed at or prior to the applicable Closing Date shall have been performed;

(iii) the delivery by the Company and the Holding Company, as applicable, of the items set forth in Section 2.2(a) of this Agreement;

(iv) there shall have been no Material Adverse Effect with respect to the Company or the Holding Company since the date hereof;

(v) immediately prior to the First Closing, the Reverse Merger shall have been consummated and evidence thereof shall be delivered to vFinance (including, without limitation, (A) evidence of the filing of a certificate of merger filed with the state of

Delaware, (B) evidence of notifying (x) the Holding Company's transfer agent, (y) Nasdaq (if required) and (z) the CUSIP Bureau (including, if required, obtaining a new CUSIP number of the Common Stock) that the Reverse Merger has been consummated and (C) such other documents as may reasonably be requested by vFinance) and the Company shall be a wholly owned subsidiary of the Holding Company; and

(vi) from the date hereof to the applicable Closing Date, trading in the Common Stock shall not have been suspended by the Commission (except for any suspension of trading of limited duration agreed to by the Holding Company, which suspension shall be terminated prior to the First Closing), and, at any time prior to the applicable Closing Date, trading in securities generally as reported by Bloomberg Financial Markets shall not have been suspended or limited, or minimum prices shall not have been established on securities whose trades are reported by such service, or on any Trading Market, nor shall a banking moratorium have been declared either by the United States or New York State authorities nor shall there have occurred any material outbreak or escalation of hostilities or other national or international calamity of such magnitude in its effect on, or any material adverse change in, any financial market which, in each case, in the reasonable judgment of each Purchaser, makes it impracticable or inadvisable to purchase the Shares at the applicable Closing.

ARTICLE III.
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company. Except as set forth in the Memorandum, the Company and the Holding Company, jointly and severally, hereby make the representations and warranties set forth below.

(a) Subsidiaries. All of the direct and indirect subsidiaries of the Company and the Holding Company are set forth in the Memorandum. The Company owns, directly or indirectly, all of the capital stock or other equity interests of each Subsidiary free and clear of any Liens, and all the issued and outstanding shares of capital stock of each Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities. If the Company or Holding Company has no subsidiaries, then references in the Transaction Documents to Subsidiaries will be disregarded.

(b) Organization and Qualification. The Company and each of the Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation or default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. Each of the Company and the Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material adverse effect on the results of operations, assets, business, prospects or financial condition of the Company and the Subsidiaries, taken as a whole, or (iii) a material adverse effect on the Company's or Holding Company's ability to perform

in any material respect on a timely basis its obligations under any Transaction Document (any of (i), (ii) or (iii), a "Material Adverse Effect") and no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement. Each of the Company and the Holding Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents and otherwise to carry out its obligations thereunder. The execution and delivery of each of the Transaction Documents by the Company and the Holding Company and the consummation by it of the transactions contemplated thereby have been duly authorized by all necessary action on the part of the Company and the Holding Company, as applicable, and no further action is required by the Company or the Holding Company in connection therewith other than in connection with the Required Approvals. Each Transaction Document has been (or upon delivery will have been) duly executed by the Company and the Holding Company and, when delivered in accordance with the terms hereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

(d) No Conflicts. The execution, delivery and performance of the Transaction Documents by each of the Company and the Holding Company, the issuance and sale of the Shares and the consummation by the Company and the Holding Company of the other transactions contemplated thereby do not and will not (i) conflict with or violate any provision of the Company's, Holding Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of the Company, the Holding Company or any Subsidiary, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) or other understanding to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound or affected, or (iii) subject to the Required Approvals, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. Neither the Company nor the Holding Company is required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company or the Holding Company of the Transaction Documents, other than (i) the filing with the Commission of the Registration Statement by the Holding Company and such other filings as are required by applicable provisions of the Exchange Act, (ii) application(s) by the Holding Company to each applicable Trading Market for the listing of the Shares and Warrant Shares for trading thereon in the time and manner required thereby, (iii) the filing of Form D with the Commission and such filings as are required to be made under applicable state securities laws and (iv) the filing of merger certificates that are required with respect to the Reverse Merger by applicable state law (collectively, the "Required

Approvals").

(f) Issuance of the Securities. The Shares and Warrants are duly authorized and, when issued and paid for in accordance with the Transaction Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens imposed by the Holding Company other than restrictions on transfer provided for in the Transaction Documents. The Warrant Shares, when issued in accordance with the terms

of the Transaction Documents, will be validly issued, fully paid and nonassessable, free and clear of all Liens imposed by the Holding Company. The Holding Company has reserved from its duly authorized capital stock the maximum number of shares of Common Stock issuable pursuant to this Agreement and the Warrants.

(g) Capitalization. The capitalization of the Company and the Holding Company is as set forth in the Memorandum. Neither the Company nor the Holding Company has issued any capital stock other than as set forth in the Memorandum. No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as a result of the purchase and sale of the Securities, there are no outstanding options, warrants, script rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock or Common Stock Equivalents. The issue and sale of the Securities will not obligate the Holding Company to issue shares of Common Stock or other securities to any Person (other than the Purchasers) and will not result in a right of any holder of Holding Company securities to adjust the exercise, conversion, exchange or reset price under such securities. All of the outstanding shares of capital stock of the Holding Company are validly issued, fully paid and nonassessable, have been issued in compliance with all federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. No further approval or authorization of any stockholder, the Board of Directors of the Holding Company or others is required for the issuance and sale of the Shares. There are no stockholders agreements, voting agreements or other similar agreements with respect to the Holding Company's capital stock to which the Holding Company is a party or, to the knowledge of the Holding Company, between or among any of the Holding Company's stockholders.

(h) SEC Reports; Financial Statements. The Holding Company has filed all reports, schedules, forms, statements and other documents required to be filed by it under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the two years preceding the date hereof (or such shorter period as the Holding Company was required by law to file such material) (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the "SEC Reports") on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the Commission promulgated thereunder, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited financial statements of the Company and the Holding Company

for the last two years or such shorter period as such companies have been in existence are set forth in the Memorandum as to the Company and in the registration statement on Form SB-2 filed with the Commission by the Holding Company, and there have been no material changes in the financial condition of either company since the dates of such statements, except as disclosed in the Memorandum. Such financial statements comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis during the periods involved ("GAAP"), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company and the Holding Company and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) Material Changes. Since the date of the latest audited financial statements included in the SEC Reports as to the Holding Company and in the Memorandum as to the Company, except as specifically disclosed in the Memorandum, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) neither the Company nor the Holding Company has incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's or the Holding Company's financial statements pursuant to GAAP or required to be disclosed in filings made with the Commission, (iii) neither the Company nor the Holding Company has altered its method of accounting, (iv) neither the Company nor the Holding Company has declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock and (v) neither the Company nor the Holding Company has issued any equity securities to any officer, director or Affiliate, except pursuant to existing Company or Holding Company stock option plans. The Holding Company does not have pending before the Commission any request for confidential treatment of information.

(j) Litigation. There is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company or the Holding Company, threatened against or affecting the Company, the Holding Company, any Subsidiary or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an "Action") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither the Company, the Holding Company nor any Subsidiary, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of

fiduciary duty. There has not been, and to the knowledge of the Company or the Holding Company, there is not pending or contemplated, any investigation by the Commission involving the Company, the Holding

Company or any current or former director or officer of the Company or the Holding Company. The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Holding Company or any Subsidiary under the Exchange Act or the Securities Act.

(k) Labor Relations. No material labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company which could reasonably be expected to result in a Material Adverse Effect.

(l) Compliance. Except as disclosed in the Memorandum, neither the Company nor the Holding Company nor any Subsidiary (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company, the Holding Company or any Subsidiary under), nor has the Company, the Holding Company or any Subsidiary received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any order of any court, arbitrator or governmental body, or (iii) is or has been in violation of any statute, rule or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws applicable to its business except in each case as could not have a Material Adverse Effect.

(m) Regulatory Permits. The Company and the Subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as described in Schedule 3.1(m), except where the failure to possess such permits could not have or reasonably be expected to result in a Material Adverse Effect ("Material Permits"), and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

(n) Title to Assets. The Company and the Subsidiaries have good and marketable title in fee simple to all real property owned by them that is material to the business of the Company and the Subsidiaries and good and marketable title in all personal property owned by them that is material to the business of the Company and the Subsidiaries, in each case free and clear of all Liens, except for Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and the Subsidiaries and Liens for the payment of federal, state or other taxes, the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases of which the Company and the Subsidiaries are in compliance.

(o) Patents and Trademarks. The Company and the Subsidiaries have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, licenses and other similar rights necessary or material for use in connection with their respective businesses as described in the Memorandum and which the failure to so have could have a Material Adverse Effect (collectively, the "Intellectual Property Rights"). Neither the Company nor any Subsidiary has received a written notice that the Intellectual Property Rights used by the Company or any Subsidiary violates or infringes upon the rights of any Person. To the knowledge of the Company, all such Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Intellectual Property Rights of others.

(p) Insurance. The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the

businesses in which the Company and the Subsidiaries are engaged, including, but not limited to, directors and officers insurance coverage at least equal to the aggregate Subscription Amount. To the best of Company's knowledge, such insurance contracts and policies are accurate and complete. Neither the Company nor any Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(q) Transactions With Affiliates and Employees. Except as set forth in the Memorandum, none of the officers or directors of the Company or the Holding Company and, to the knowledge of the Company and the Holding Company, none of the employees of the Company or the Holding Company is presently a party to any transaction with the Company, the Holding Company or any Subsidiary (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company or the Holding Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner, in each case in excess of $60,000 other than (i) for payment of salary or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company or the Holding Company and (iii) for other employee benefits, including stock option agreements under any stock option plan of the Company or the Holding Company.

(r) Internal Accounting Controls. The Holding Company is in material compliance with all provisions of the Sarbanes Oxley Act of 2002 which are applicable to it as of the Closing Date. The Company, the Holding Company and the Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(s) Certain Fees. Except as described in the Memorandum, no brokerage or finder's fees or commissions are or will be payable by the Company or the Holding Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by this Agreement. The Purchasers shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by this Agreement.

(t) Private Placement. Assuming the accuracy of the Purchasers representations and warranties set forth in Section 3.2, no registration under the Securities Act is required for the offer and sale of the Securities by the Holding Company to the Purchasers as contemplated hereby. The issuance and sale of the Securities hereunder does not contravene the rules and regulations of the Trading Market.

(u) Investment Company. The Holding Company is not, and is not an Affiliate of, and immediately after receipt of payment for the Shares, will not be or be an Affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended. The Holding Company shall conduct its business in a manner so that it will not become subject to the Investment Company Act.

(v) Registration Rights. Except as described in the Memorandum and other than each of the Purchasers, no Person has any right to cause

the Holding Company to effect the registration under the Securities Act of any securities of the Holding Company.

(w) Listing and Maintenance Requirements. The Holding Company is subject to the reporting requirements of Section 15(d) of the Exchange Act, and the Holding Company has taken no action designed to, or which to its knowledge is likely to have the effect of, terminating such reporting obligation of the Common Stock under the Exchange Act nor has the Holding Company received any notification that the Commission is contemplating any action that would terminate such obligations. The Holding Company has not, in the 12 months preceding the date hereof, received notice from any Trading Market on which the Common Stock is or has been listed or quoted to the effect that the Holding Company is not in compliance with the listing or maintenance requirements of such Trading Market. The Holding Company is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance with all such listing and maintenance requirements.

(x) Application of Takeover Protections. The Holding Company and its Board of Directors have taken all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Holding Company's Certificate of Incorporation (or similar charter documents) or the laws of its state of incorporation that is or could become applicable to the Purchasers as a result of the Purchasers and the Holding Company fulfilling their obligations or exercising their rights under the Transaction Documents, including without limitation as a result of the Holding Company's issuance of the Securities and the Purchasers' ownership of the Securities.

(y) Disclosure. All disclosure provided to the Purchasers regarding the Company, its business, the Holding Company, its business and the transactions contemplated hereby, including the Memorandum, furnished by or on behalf of the Company or the Holding Company with respect to the representations and warranties made herein are true and correct with respect to such representations and warranties and do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(z) No Integrated Offering. Assuming the accuracy of the Purchasers' representations and warranties set forth in Section 3.2, neither the Company nor the Holding Company nor any of its affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause this offering of the Securities to be integrated with prior offerings by the Company or the Holding Company for purposes of the Securities Act or any applicable shareholder approval provisions, including, without limitation, under the rules and regulations of any Trading Market on which any of the securities of the Company are listed or designated.

(aa) Solvency. Based on the financial condition of the Company and the Holding Company as of each Closing Date after giving effect to the receipt by the Holding Company of the proceeds from the sale of the Securities hereunder, (i) the Company's and the Holding Company's fair saleable value of its assets exceeds the amount that will be required to be paid on or in respect of the Company's and Holding Company's existing debts and other liabilities (including known contingent liabilities) as they mature; (ii) the Company's and Holding Company's assets do not constitute unreasonably small capital to carry on its business for the current fiscal year as now conducted and as proposed to be conducted including its capital needs taking into account the particular capital requirements of the business conducted by the Company and the Holding Company, and projected capital requirements and capital availability thereof; and (iii) the current cash flow of the Company and the Holding Company, together with the proceeds the Company

and the Holding Company would receive, were it to liquidate all of its assets, after taking into account all anticipated uses of the cash, would be sufficient to pay all amounts on or in respect of its debt when such amounts are required to be paid. The Company and the Holding Company does not intend to incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be payable on or in respect of its debt). Neither the Company nor the Holding Company has knowledge of any facts or circumstances which lead it to believe that it will file for reorganization or liquidation under the bankruptcy or reorganization laws of any jurisdiction within one year from the last Closing Date. The financial statements described in Section 3.1(h) hereof set forth as of the dates thereof all outstanding secured and unsecured Indebtedness of the Company or any Subsidiary, or for which the Company or any Subsidiary has commitments. For the purposes of this Agreement, "Indebtedness" shall mean (a) any liabilities for borrowed money or amounts owed in excess of $50,000 (other than trade accounts payable incurred in the ordinary course of business), (b) all guaranties, endorsements and other contingent obligations in respect of Indebtedness of others, whether or not the same are or should be reflected in the Company's and Holding Company's balance sheet (or the notes thereto), except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business; and (c) the present value of any lease payments in excess of $50,000 due under leases required to be capitalized in accordance with GAAP. Neither the Company nor any Subsidiary is in default with respect to any Indebtedness.

(bb) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company, the Holding Company and each Subsidiary has filed all necessary federal, state and foreign income and franchise tax returns and has paid or accrued all taxes shown as due thereon, and neither the Company nor the Holding Company has any knowledge of a tax deficiency which has been asserted or threatened against the Company, the Holding Company or any Subsidiary.

(cc) No General Solicitation. Neither the Company nor the Holding Company nor, assuming the accuracy of the representations of the Purchasers in Section 3.2(e) hereof and that vFinance has not and has not permitted any broker participating in the transactions contemplated by this Agreement to engage in a general solicitation or general advertising, any person acting on behalf of the Company or the Holding Company has offered or sold any of the Shares by any form of general solicitation or general advertising. The Company and the Holding Company has offered the Shares for sale only to the Purchasers and certain other "accredited investors" within the meaning of Rule 501 under the Securities Act.

(dd) Foreign Corrupt Practices. Neither the Company nor the Holding Company nor to the knowledge of the Company or the Holding Company, any agent or other person acting on behalf of the Company or Holding Company, has (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company or the Holding Company (or made by any person acting on its behalf of which the Company or the Holding Company is aware) which is in violation of law, or (iv) violated in any material respect any provision of the Foreign Corrupt Practices Act of 1977, as amended.

(ee) Accountants. The Company's and Holding Company's accountants are identified in their opinions on the financial statements described in Section 3.1(h) hereof. To the Company's

knowledge and the Holding Company' knowledge, such accountants, who the Company expects will express their opinion with respect to the financial statements to be included in the Holding Company's upcoming financial statements and in the Registration Statement, are a registered public accounting firm as required by the Securities Act.

(ff) Acknowledgment Regarding Purchasers' Purchase of Shares. Each of the Company and the Holding Company acknowledges and agrees that each of the Purchasers is acting solely in the capacity of an arm's length purchaser with respect to the Transaction Documents and the transactions contemplated hereby. The Company and the Holding Company further acknowledge that no Purchaser is acting as a financial advisor or fiduciary of the Company or the Holding Company (or in any similar capacity) with respect to this Agreement and the transactions contemplated hereby and any advice given by any Purchaser or any of their respective representatives or agents in connection with this Agreement and the transactions contemplated hereby is merely incidental to the Purchasers' purchase of the Shares. The Company and the Holding Company further represents to each Purchaser that the Company's and the Holding Company's decision to enter into this Agreement has been based solely on the independent evaluation of the transactions contemplated hereby by the Company, the Holding Company and their representatives.

(gg) Completion of Reverse Merger. The Reverse Merger has been consummated on or before the date hereof. All documents required to be delivered in connection with the Reverse Merger have been delivered and were duly authorized and represent valid and binding obligations of the parties thereto in accordance with their respective terms. All conditions to the closing of the Reverse Merger were satisfied and no conditions set forth in any agreement required to be delivered in connection therewith have been waived. A copy of all consents, authorizations, orders, notices, filings and registrations made with any court or other federal, state, local or other governmental authority in connection with the Reverse Merger are attached hereto as Schedule 3.1(ff). All securities of the Holding Company issued to the former security holders of the Company in connection with the Reverse Merger were duly authorized, validly issued, fully paid and nonassessable. Such issuances were exempt from the registration requirements of the Securities Act and applicable state securities laws. As of the date hereof and after giving effect to the Reverse Merger, the Company is a wholly-owned subsidiary of the Holding Company. After giving effect to the Reverse Merger, there are no shares of capital stock of the Company outstanding or securities, rights or obligations convertible into or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of capital stock of the Company other than 100shares of common stock which are owned by the Holding Company.

3.2 Representations and Warranties of the Purchasers. Each Purchaser hereby, for itself and for no other Purchaser, represents and warrants as of the date hereof and as of the applicable Closing Date to the Company and the Holding Company as follows:

(a) Organization; Authority. Such Purchaser, if not an individual, is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with full right, corporate or partnership power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations thereunder. The execution, delivery and performance by such Purchaser of the transactions contemplated by this Agreement, if such Purchaser is not an individual, have been duly authorized by all necessary corporate or similar action on the part of such Purchaser. Each Transaction Document to which it is a party has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms, except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights

generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(b) Own Account. Such Purchaser understands that the Securities are "restricted securities" and have not been registered under the Securities Act or any applicable state securities law and is acquiring the Securities as principal for its own account and not with a view to or for distributing or reselling such Securities or any part thereof in violation of the Securities Act or any applicable state securities law, has no present intention of distributing any of such Securities in violation of the Securities Act or any applicable state securities law and has no arrangement or understanding with any other persons regarding the distribution of such Securities (this representation and warranty not limiting such Purchaser's right to sell the Securities pursuant to the Registration Statement or otherwise in compliance with applicable federal and state securities laws) in violation of the Securities Act or any applicable state securities law. Such Purchaser is acquiring the Securities hereunder in the ordinary course of its business. Such Purchaser does not have any agreement or understanding, directly or indirectly, with any Person to distribute any of the Securities.

(c) Purchaser Status. At the time such Purchaser was offered the Securities, it was, and at the date hereof it is, and on each date on which it exercises any Warrants, it will be an "accredited investor" as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7) or (a)(8) under the Securities Act. Such Purchaser is not required to be registered as a broker-dealer under Section 15 of the Exchange Act.

(d) Experience of Such Purchaser. Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment. Such Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(e) General Solicitation. Such Purchaser is not purchasing the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

(f) Short Sales and Confidentiality. Other than the transaction contemplated hereunder, such Purchaser has not directly or indirectly, nor has any Person acting on behalf of or pursuant to any understanding with such Purchaser, executed any disposition, including Short Sales (but not including the location and/or reservation of borrowable shares of Common Stock), in the securities of the Holding Company during the period commencing from the time that such Purchaser first received the identity of the Holding Company to the date hereof ("Discussion Time"). Notwithstanding the foregoing, in the case of a Purchaser that is a multi-managed investment vehicle whereby separate portfolio managers manage separate portions of such Purchaser's assets and the portfolio managers have no direct knowledge of the investment decisions made by the portfolio managers managing other portions of such Purchaser's assets, the representation set forth above shall only apply with respect to the portion of assets managed by the portfolio manager that made the investment decision to purchase the Securities covered by this Agreement. Other than to other Persons party to this Agreement, such Purchaser has maintained the confidentiality of all disclosures made to it in connection with this transaction (including the existence and terms of this transaction).

ARTICLE IV.
OTHER AGREEMENTS OF THE PARTIES

4.1 Transfer Restrictions.

(a) The Securities may only be disposed of in compliance with state and federal securities laws. In connection with any transfer of Securities other than pursuant to an effective registration statement or Rule 144, to the Holding Company or to an affiliate of a Purchaser or in connection with a pledge as contemplated in Section 4.1(b), the Holding Company may require the transferor thereof to provide to the Holding Company an opinion of counsel selected by the transferor and reasonably acceptable to the Holding Company, the form and substance of which opinion shall be reasonably satisfactory to the Holding Company, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act. As a condition of transfer, any such transferee shall agree in writing to be bound by the terms of this Agreement and shall have the rights of a Purchaser under this Agreement and the Registration Rights Agreement.

(b) The Purchasers agree to the imprinting, so long as is required by this Section 4.1(b), of a legend on any of the Securities in the following form:

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THESE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT WITH A REGISTERED BROKER-DEALER OR OTHER LOAN WITH A FINANCIAL INSTITUTION THAT IS AN "ACCREDITED INVESTOR" AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT.

The Holding Company acknowledges and agrees that a Purchaser may from time to time pledge pursuant to a bona fide margin agreement with a registered broker-dealer or grant a security interest in some or all of the Securities to a financial institution that is an "accredited investor" as defined in Rule 501(a) under the Securities Act and who agrees to be bound by the provisions of this Agreement and the Registration Rights Agreement and, if required under the terms of such arrangement, such Purchaser may transfer pledged or secured Securities to the pledgees or secured parties. Such a pledge or transfer would not be subject to approval of the Holding Company and no legal opinion of legal counsel of the pledgee, secured party or pledgor shall be required in connection therewith. Further, no notice shall be required of such pledge. At the appropriate Purchaser's expense, the Holding Company will execute and deliver such reasonable documentation as a pledgee or secured party of Securities may reasonably request in connection with a pledge or transfer of the Securities, including, if the Securities are subject to registration pursuant to the Registration Rights Agreement, the preparation and filing of any required prospectus supplement under Rule 424(b)(3) under the Securities Act or other applicable provision of the Securities Act to appropriately amend the list of Selling Stockholders thereunder.

(c) Certificates evidencing the Shares and Warrant Shares shall not contain any legend (including the legend set forth in Section 4.1(b)), (i)(A) as to any Purchaser who is an institutional investor, with a Subscription Amount greater than $200,000 on the respective Closing Date, while a registration statement (including the Registration Statement) covering the resale of such security which is effective under the Securities Act and (B) as to all other Purchasers, following a sale pursuant to a registration statement (including the Registration Statement) covering the resale of such security which is effective under the Securities Act, or (ii) following any sale of such

Shares or Warrant Shares pursuant to Rule 144, or (iii) if such Shares or Warrant Shares are eligible for sale under Rule 144(k), or (iv) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the Staff of the Commission). The Holding Company shall cause its counsel to issue a legal opinion to the Holding Company's transfer agent promptly after the Effective Date if

required by the Holding Company's transfer agent to effect the removal of the legend hereunder. If all or any portion of a Warrant is exercised at a time when there is an effective registration statement to cover the resale of the Warrant Shares, such Warrant Shares shall be issued free of all legends. The Holding Company agrees that at such time as such legend is no longer required under this Section 4.1(c), it will, no later than three Trading Days following the delivery by a Purchaser to the Holding Company or the Holding Company's transfer agent of a certificate representing Shares or Warrant Shares, as the case may be, issued with a restrictive legend (such date, the "Legend Removal Date"), deliver or cause to be delivered to such Purchaser a certificate representing such Securities that is free from all restrictive and other legends. The Holding Company may not make any notation on its records or give instructions to any transfer agent of the Holding Company that enlarge the restrictions on transfer set forth in this Section. Certificates for Securities subject to legend removal hereunder shall be transmitted by the transfer agent of the Holding Company to the Purchasers by crediting the account of the Purchaser's prime broker with the Depository Trust Company System.

(d) In addition to such Purchaser's other available remedies, such Purchaser shall have the right to pursue all remedies available to it at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief.

(e) Each Purchaser, severally and not jointly with the other Purchasers, agrees that the removal of the restrictive legend from certificates representing Securities as set forth in this Section 4.1 is predicated upon the Holding Company's reliance that the Purchaser will sell any Securities pursuant to either the registration requirements of the Securities Act, including any applicable prospectus delivery requirements, or an exemption therefrom.

(f) Until the one year anniversary of the Effective Date, the Holding Company shall not undertake a reverse or forward stock split or reclassification of the Common Stock without the prior written consent of the Purchasers holding a majority in interest of the Shares; provided, however, the Holding Company may undertake a reverse or forward stock split or reclassification of the Common Stock as described in the Memorandum.

4.2 Furnishing of Information. So long as any Purchaser owns Securities, the Holding Company covenants to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by the Holding Company after the date hereof pursuant to the Exchange Act. As long as any Purchaser owns Securities, if the Holding Company is not required to file reports pursuant to the Exchange Act, it will prepare and furnish to the Purchasers and make publicly available in accordance with Rule 144(c) such information as is required for the Purchasers to sell the Securities under Rule 144. The Holding Company further covenants that it will take such further action as any holder of Securities may reasonably request, all to the extent required from time to time to enable such Person to sell such Securities without registration under the Securities Act within the limitation of the exemptions provided by Rule 144.

4.3 Integration. Neither the Company nor the Holding Company shall sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be

integrated with the offer or sale of the Securities in a manner that would require the registration under the Securities Act of the sale of the Securities to the Purchasers or that would be integrated with the offer or sale of the Securities for purposes of the rules and regulations of any Trading Market.

4.4 Securities Laws Disclosure; Publicity. The Holding Company shall, within one Trading Day of the Reverse Merger Effective Date, issue a press release, reasonably acceptable to vFinance disclosing the material terms of the transactions contemplated hereby and the Reverse Merger, and shall, within 4 Trading Days, file a Current Report on Form 8-K attaching the Transaction Documents thereto (including all exhibits and schedules to the Transaction Documents). As of the date of the filing of the Registration Statement, the Holding Company shall make any such disclosures to the extent necessary such that none of the Purchasers or their agent or counsel, except with such Purchaser's written consent, are in possession of any information that constitutes or might constitute material, non-public information. The Company and vFinance shall consult with each other in issuing any other press releases with respect to the transactions contemplated hereby. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Purchaser, or include the name of any Purchaser in any filing with the Commission or any regulatory agency or Trading Market, without the prior written consent of such Purchaser, except (i) as required by federal securities law in connection with the registration statement contemplated by the Registration Rights Agreement and (ii) to the extent such disclosure is required by law or Trading Market regulations, in which case the Company shall provide the Purchasers with prior notice of such disclosure permitted under subclause (i) or (ii).

4.5 Shareholder Rights Plan. No claim will be made or enforced by the Company, the Holding Company or, to the knowledge of the Company or the Holding Company, any other Person that any Purchaser is an "Acquiring Person" under any shareholder rights plan or similar plan or arrangement in effect or hereafter adopted by the Company or the Holding Company, or that any Purchaser could be deemed to trigger the provisions of any such plan or arrangement, by virtue of receiving Securities under the Transaction Documents or under any other agreement between the Company, the Holding Company and the Purchasers. The Holding Company shall conduct its business in a manner so that it will not become subject to the Investment Company Act.

4.6 Non-Public Information. The Holding Company covenants and agrees that neither it nor any other Person acting on its behalf will provide any Purchaser or its agents or counsel with any information that the Holding Company believes constitutes material non-public information, unless prior thereto such Purchaser shall have executed a written agreement regarding the confidentiality and use of such information. The Holding Company understands and confirms that each Purchaser shall be relying on the foregoing representations in effecting transactions in securities of the Holding Company.

4.7 Use of Proceeds. Except as set forth in the Memorandum, the Company shall use the net proceeds from the sale of the Securities hereunder for working capital purposes and not for the satisfaction of any portion of the Company's debt (other than payment of trade payables in the ordinary course of the Company's business and prior practices), to redeem any Common Stock or Common Stock Equivalents or to settle any outstanding litigation.

4.8 Indemnification of Purchasers. Subject to the provisions of this Section 4.8, the Company and the Holding Company, severally and jointly, will indemnify and hold the Purchasers and their directors, officers, shareholders, partners, employees and agents (each, a "Purchaser Party") harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company or the Holding Company in this Agreement or in the other Transaction Documents or (b) any action instituted against a Purchaser, or any of them or their respective Affiliates, by any stockholder of the Company or the Holding Company who is not an Affiliate of such Purchaser, with respect to any of the transactions contemplated by the Transaction Documents (unless such action is

based upon a breach of such Purchaser's representations, warranties or covenants under the Transaction Documents or any agreements or understandings such Purchaser may have with any such stockholder or any violations by the Purchaser of state or federal securities laws or any conduct by such Purchaser which constitutes fraud, gross negligence, willful misconduct or malfeasance). If any action shall be brought against any Purchaser Party in respect of which indemnity may be sought pursuant to this Agreement, such Purchaser Party shall promptly notify the Company or Holding Company in writing, and the Company or Holding Company shall have the right to assume the defense thereof with counsel of its own choosing. Any Purchaser Party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Purchaser Party except to the extent that (i) the employment thereof has been specifically authorized by the Company or the Holding Company in writing, (ii) the Company or Holding Company has failed after a reasonable period of time to assume such defense and to employ counsel or (iii) in such action there is, in the reasonable opinion of such separate counsel, a material conflict on any material issue between the position of the Company or the Holding Company and the position of such Purchaser Party, provided, however, that the Holding Company and Company shall not be liable pursuant to this sentence for the reasonable fees and expenses of more than one set of counsel and, if applicable, one set of local counsel, in any single action or group of related actions arising out of substantially the same set of operative facts. The Company and the Holding Company will not be liable to any Purchaser Party under this Agreement (i) for any settlement by a Purchaser Party effected without the Company's or the Holding Company's prior written consent, which shall not be unreasonably withheld or delayed; or (ii) to the extent, but only to the extent that a loss, claim, damage or liability is attributable to any Purchaser Party's breach of any of the representations, warranties, covenants or agreements made by the Purchasers in this Agreement or in the other Transaction Documents.

4.9 Reservation of Common Stock. The Holding Company shall continue to reserve and keep available at all times, free of preemptive rights, a sufficient number of shares of Common Stock for the purpose of enabling the Holding Company to issue Shares pursuant to this Agreement and Warrant Shares pursuant to any exercise of the Warrants.

4.10 Listing of Common Stock. The Holding Company will take all action reasonably necessary to continue the listing and trading of its Common Stock on a Trading Market and will comply in all respects with the Holding Company's reporting, filing and other obligations under the bylaws or rules of the Trading Market. The Holding Company further agrees, if the Holding Company applies to have the Common Stock traded on any other Trading Market, it will include in such application all of the Shares and Warrant Shares, and will take such other action as is necessary to cause all of the Shares and Warrant Shares to be listed on such other Trading Market as promptly as possible.

4.11 Equal Treatment of Purchasers. No consideration shall be offered or paid to any person to amend or consent to a waiver or modification of any provision of any of the Transaction Documents unless the same consideration is also offered to all of the parties to the Transaction Documents. For clarification purposes, this provision constitutes a separate right granted to each Purchaser by the Company and the Holding Company and negotiated separately by each Purchaser, and is intended to treat for the Company and the Holding Company the Purchasers as a class and shall not in any way be construed as the Purchasers acting in concert or as a group with respect to the purchase, disposition or voting of Securities or otherwise.

4.12 Subsequent Equity Sales.

(a) From the date hereof until 60 days after the Effective Date, neither the Company nor any Subsidiary shall issue shares of Common Stock or Common Stock Equivalents; provided, however, the 60 day period set forth in this Section 4.12 shall be extended for the number of Trading Days during such period in which (i) trading in the Common Stock is suspended by any Trading Market, or (ii) following the Effective Date, the Registration Statement is not effective or the prospectus included in the Registration Statement may not be used by the Purchasers for the resale of the Shares and Warrant Shares; provided, however, this Section 4.12(a) shall not apply, from August 1,

2005 until the earlier of (i) the Filing Date (as defined in the Registration Rights Agreement) and (ii) the actual filing date of the initial Registration Statement, for any issuance of shares of Common Stock or Common Stock Equivalents, in the aggregate, equal to the difference between $5,000,000 and the aggregate Subscription Amounts for the Closings.

(b) From the date hereof until the two year anniversary of the date hereof, the Company shall be prohibited from effecting or entering into an agreement to effect any Subsequent Financing involving a "Variable Rate Transaction". The term "Variable Rate Transaction" shall mean a transaction in which the Company issues or sells (i) any debt or equity securities that are convertible into, exchangeable or exercisable for, or include the right to receive additional shares of Common Stock either (A) at a conversion, exercise or exchange rate or other price that is based upon and/or varies with the trading prices of or quotations for the shares of Common Stock at any time after the initial issuance of such debt or equity securities, or (B) with a conversion, exercise or exchange price that is subject to being reset at some future date after the initial issuance of such debt or equity security or upon the occurrence of specified or contingent events directly or indirectly related to the business of the Company or the market for the Common Stock or (ii) enters into any agreement, including, but not limited to, an equity line of credit, whereby the Company may sell securities at a future determined price. Any Purchaser shall be entitled to obtain injunctive relief against the Company to preclude any such issuance, which remedy shall be in addition to any right to collect damages.

(c) Notwithstanding the foregoing, this Section 4.12 shall not apply in respect of (i) an Exempt Issuance, except that no Variable Rate Transaction shall be an Exempt Issuance.

4.13 Short Sales and Confidentiality. Each Purchaser severally and not jointly with the other Purchasers covenants that neither it nor any affiliates acting on its behalf or pursuant to any understanding with it will execute any Short Sales during the period after the Discussion Time and ending at the time that the transactions contemplated by this Agreement are first publicly announced as described in Section 4.4. Each Purchaser, severally and not jointly with the other Purchasers, covenants that until such time as the transactions contemplated by this Agreement are publicly disclosed by the Holding Company as described in Section 4.4, such Purchaser will maintain, the confidentiality of all disclosures made to it in connection with this transaction (including the existence and terms of this transaction). Each Purchaser understands and acknowledges, severally and not jointly with any other Purchaser, that the Commission currently takes the position that coverage of short sales of shares of the Common Stock "against the box" prior to the Effective Date of the Registration Statement with the Securities is a violation of Section 5 of the Securities Act, as set forth in Item 65, Section 5 under Section A, of the Manual of Publicly Available Telephone Interpretations, dated July 1997, compiled by the Office of Chief Counsel, Division of Corporation Finance. Notwithstanding the foregoing, no Purchaser makes any representation, warranty or covenant hereby that it will not engage in Short Sales in the securities of the Company after the time that the transactions contemplated by this Agreement are first publicly announced as described in Section 4.4. Notwithstanding the foregoing, in the case of a Purchaser that is a multi-managed investment vehicle whereby separate portfolio managers manage separate portions of such Purchaser's assets and the portfolio managers have no direct knowledge of the investment decisions made by the portfolio managers managing other portions of such Purchaser's assets, the covenant set forth above shall only apply with respect to the portion of assets managed by the portfolio manager that made the investment decision to purchase the Securities covered by this Agreement.

4.14 Board of Directors. The Holding Company shall cause one designee from vFinance to serve on the Board of Directors, the Compensation Committee and the Audit Committee of the Holding Company until the earlier of (a) the date of the next annual shareholder meeting following the date hereof and (b) May 1, 2006.

ARTICLE V.

MISCELLANEOUS

5.1 Termination. This Agreement may be terminated by any Purchaser, as to such Purchaser's obligations hereunder only and without any effect whatsoever on the obligations between the Company, the Holding Company and the other Purchasers, by written notice to the other parties, if the First Closing has not been consummated on or before [June 15,] 2005; provided, however, that no such termination will affect the right of any party to sue for any breach by the other party (or parties).

5.2 Fees and Expenses. Except as expressly set forth in the Transaction Documents to the contrary, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Holding Company shall pay all stamp and other taxes and duties levied in connection with the delivery of the Securities.

5.3 Entire Agreement. The Transaction Documents, together with the exhibits and schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

5.4 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth on the signature pages attached hereto prior to 5:30 p.m. (New York City time) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth on the signature pages attached hereto on a day that is not a Trading Day or later than 5:30 p.m. (New York City time) on any Trading Day, (c) the second Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as set forth on the signature pages attached hereto.

5.5 Amendments; Waivers. No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and each Purchaser or, in the case of a waiver, by the party against whom enforcement of any such waiver is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right.

5.6 Headings The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

5.7 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. Neither the Company nor the Holding Company may assign this Agreement or any rights or obligations hereunder without the prior written consent of each Purchaser. Any Purchaser may assign any or all of its rights under this Agreement to any Person to whom such Purchaser assigns or transfers any Securities, provided such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions hereof that apply to the "Purchasers".

5.8 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except as otherwise set forth in Section 4.8.

5.9 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the City of New York. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. The parties hereby waive all rights to a trial by jury. If either party shall commence an action or proceeding to enforce any provisions of the Transaction Documents, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorneys' fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

5.10 Survival. The representations and warranties herein shall survive each Closing and delivery of the Shares and Warrant Shares.

5.11 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile signature page were an original thereof.

5.12 Severability. If any provision of this Agreement is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby and the parties will attempt to agree upon a valid and enforceable provision that is a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Agreement.

5.13 Rescission and Withdrawal Right. Notwithstanding anything to the contrary contained in (and without limiting any similar provisions of) the Transaction Documents, whenever any Purchaser exercises a right, election, demand or option under a Transaction Documents and the Company or the Holding Company does not timely perform its related obligations within the periods therein provided, then such Purchaser may rescind or withdraw, in its sole discretion from time to time upon written notice to the Company or the Holding Company, any relevant notice, demand or election in whole or in part without prejudice to its future actions and rights.

5.14 Replacement of Securities. If any certificate or instrument evidencing any Securities is mutilated, lost, stolen or destroyed, the Holding Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof, or in lieu of and substitution therefor, a new

certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Holding Company of such loss, theft or destruction and customary and reasonable indemnity and bond, if requested. The applicants for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs associated with the issuance of such replacement Securities.

5.15 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Purchasers and the Holding Company will be entitled to seek specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations described in the foregoing sentence.

5.16 Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser under any Transaction Document are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under any Transaction Document. Nothing contained herein or in any Transaction Document, and no action taken by any Purchaser pursuant thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including without limitation the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose. Each Purchaser has been represented by its own separate legal counsel in their review and negotiation of the Transaction Documents. For reasons of administrative convenience only, Purchasers and their respective counsel have chosen to communicate with the Company and the Holding Company through FW. FW does not represent all of the Purchasers but only vFinance. The Company and the Holding Company have elected to provide all Purchasers with the same terms and Transaction Documents for the convenience of the Company and the Holding Company and not because it was required or requested to do so by the Purchasers.

5.17 Construction. The parties agree that each of them and/or their respective counsel has reviewed and had an opportunity to revise the Transaction Documents and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of the Transaction Documents or any amendments hereto.

(Signature Pages Follow)

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

NOVELOS THERAPEUTICS, INC. Address for Notice:

By:

Name:
Title:

With a copy to (which shall not constitute notice):

COMMON HORIZONS, INC. Address for Notice:

By:

Name:
Title:

With a copy to (which shall not constitute notice):

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK
SIGNATURE PAGE FOR PURCHASER FOLLOWS]

[PURCHASER SIGNATURE PAGES TO NOVELOS SECURITIES PURCHASE AGREEMENT]

IN WITNESS WHEREOF, the undersigned have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

Name of Purchaser:

Signature of Authorized Signatory of Purchaser:

Name of Authorized Signatory:

Title of Authorized Signatory:

Email Address of Purchaser:

Address for Notice of Purchaser:

Address for Delivery of Securities for Purchaser (if not same as above):

Subscription Amount (not less than $25,000):
Warrant Shares:
EIN Number: [PROVIDE THIS UNDER SEPARATE COVER]

[SIGNATURE PAGES CONTINUE]

EXHIBIT A

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into as of May ___, 2005, among Common Horizons, Inc., a Nevada

corporation (the "Company"), and the purchasers signatory hereto (each such purchaser is a "Purchaser" and collectively, the "Purchasers").

This Agreement is made pursuant to the Securities Purchase Agreement, dated as of the date hereof among the Company and the Purchasers (the "Purchase Agreement").

The Company and the Purchasers hereby agree as follows:

1. Definitions

CAPITALIZED TERMS USED AND NOT OTHERWISE DEFINED HEREIN THAT ARE DEFINED IN THE PURCHASE AGREEMENT SHALL HAVE THE MEANINGS GIVEN SUCH TERMS IN THE PURCHASE AGREEMENT. As used in this Agreement, the following terms shall have the following meanings:

"Advice" shall have the meaning set forth in Section 6(d).

"Effectiveness Date" means, with respect to the Registration Statement required to be filed hereunder, the earlier of (a) the 180th calendar day following the date of the final Closing, and (b) the fifth Trading Day following the date on which the Company is notified by the Commission that the Registration Statement will not be reviewed or is no longer subject to further review and comments.

"Effectiveness Period" shall have the meaning set forth in Section 2(a).

"Event" shall have the meaning set forth in Section 2(b).

"Event Date" shall have the meaning set forth in Section 2(b).

"Filing Date" means, with respect to the Registration Statement required to be filed hereunder, the 60th calendar day following the date of the final Closing.

"Holder" or "Holders" means the holder or holders, as the case may be, from time to time of Registrable Securities.

"Indemnified Party" shall have the meaning set forth in Section 5(c).

"Indemnifying Party" shall have the meaning set forth in Section 5(c).

"Losses" shall have the meaning set forth in Section 5(a).

"Plan of Distribution" shall have the meaning set forth in Section 2(a).

"Proceeding" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"Prospectus" means the prospectus included in the Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

"Registrable Securities" means all of (i) the Shares issuable, (ii) the Warrant Shares issuable, and (iii) shares issuable to the placement agent pursuant to the warrant issuable to such placement agent, together with any shares of Common Stock issued or issuable upon any stock split, dividend or other distribution, recapitalization or

similar event with respect to the foregoing.

"Registration Statement" means the registration statements required to be filed hereunder, including (in each case) the Prospectus, amendments and supplements to the registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in the registration statement.

"Rule 415" means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

"Rule 424" means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

"Selling Shareholder Questionnaire" shall have the meaning set forth in Section 3(a).

2. Registration

(a) On or prior to the Filing Date, the Company shall prepare and file with the Commission the Registration Statement covering the resale of all of the Registrable Securities for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement required hereunder shall be on Form S-3 (except if the Company is not then eligible to use such form, in which case it may register for resale the Registrable Securities on Form SB-2). The Registration Statement required hereunder shall contain (except if otherwise directed by the Holders) substantially the "Plan of Distribution" attached hereto as Annex A. Subject to the terms of this Agreement, the Company shall use its best efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof, but in any event not later than the Effectiveness Date, and shall use its best efforts to keep the Registration Statement continuously effective under the Securities Act until the date when all Registrable Securities covered by the Registration Statement have been sold or may be sold without volume restrictions pursuant to Rule 144(k) as determined by the counsel to the Company pursuant to a written opinion letter to such effect, addressed and acceptable to the Company's transfer agent and the affected Holders (the "Effectiveness Period"). The Company shall telephonically request effectiveness of a Registration Statement as of 5:00 pm Eastern Time on a Trading Day. The Company shall immediately notify the Holders via facsimile of the effectiveness of the Registration Statement on the same Trading Day that the Company telephonically confirms effectiveness with the Commission, which shall be the date requested for effectiveness of the Registration Statement. The Company shall, by 9:30 am Eastern Time on the Trading Day after the Effective Date (as defined in the Purchase Agreement), file a Form 424(b)(5) with the Commission.

(b) If: (i) a Registration Statement is not filed on or prior to the Filing Date, or (ii) the Company fails to file with the Commission a request for acceleration in accordance with Rule 461 promulgated under the Securities Act, within five Trading Days of the date that the Company is notified (orally or in writing, whichever is earlier) by the Commission that a Registration Statement will not be "reviewed," or is not subject to further review, or (iii) prior to the date when such Registration Statement is first declared effective by the Commission, the Company fails to file a pre-effective amendment and otherwise respond in writing to comments made by the Commission in respect of such Registration Statement within 20 business days after the receipt of comments by or notice from the Commission that such amendment is required in order for a Registration Statement to be declared effective, or (iv) a Registration Statement filed or required to be filed hereunder is not declared effective by the Commission on or before the Effectiveness Date, or (v) after a Registration Statement is first declared effective by the Commission, it ceases for any reason to remain continuously effective as to all Registrable Securities for which it is required to be effective, or the Holders are not permitted to

utilize the Prospectus therein to resell such Registrable Securities, for in any such case 10 consecutive calendar days but no more than an aggregate of 15 calendar days during any 12 month period (which need not be consecutive Trading Days)(any such failure or breach being referred to as an "Event," and for purposes of clause (i) or (iv) the date on which such Event occurs, or for purposes of clause (ii) the date on which such five Trading Day period is exceeded, or for purposes of clause (iii) the date which such 20 business day period is exceeded, or for purposes of clause (v) the date on which such 10 or 15 calendar day period, as applicable, is exceeded being referred to as "Event Date"), then in addition to any other rights the Holders may have hereunder or under applicable law, then, on each such Event Date and on each monthly anniversary of each such Event Date (if the applicable Event shall not have been cured by such date) until the applicable Event is cured, the Company shall pay to each Holder an amount in cash, as partial liquidated damages and not as a penalty, equal to 2.0% of the aggregate purchase price paid by such Holder pursuant to the Purchase Agreement for any Registrable Securities then held by such Holder. If the Company fails to pay any partial liquidated damages pursuant to this Section in full within seven days after the date payable, the Company will pay interest thereon at a rate of 15% per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to the Holder, accruing daily from the date such partial liquidated damages are due until such amounts, plus all such interest thereon, are paid in full. The partial liquidated damages pursuant to the terms hereof shall apply on a daily pro-rata basis for any portion of a month prior to the cure of an Event.

3. Registration Procedures

In connection with the Company's registration obligations hereunder, the Company shall:

(a) Not less than five Trading Days prior to the filing of the Registration Statement or any related Prospectus or any amendment or supplement thereto, the Company shall furnish to the Holders with a Subscription Amount at least equal to $200,000 copies of all such documents proposed to be filed (including documents incorporated or deemed incorporated by reference to the extent requested by such Person) which documents will be subject to the review of such Holders. Each Holder agrees to furnish to the Company a completed Questionnaire in the form attached to this Agreement as Annex B (a "Selling Shareholder Questionnaire") within 5 Trading Days of request of the Company.

(b) (i) Prepare and file with the Commission such amendments, including post-effective amendments, to the Registration Statement and the Prospectus used in connection therewith as may be necessary to keep the Registration Statement continuously effective as to the applicable Registrable Securities for the Effectiveness Period and prepare and file with the Commission such additional Registration Statements in order to register for resale under the Securities Act all of the Registrable Securities; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement, and as so supplemented or amended to be filed pursuant to Rule 424; (iii) respond as promptly as reasonably possible to any comments received from the Commission with respect to the Registration Statement or any amendment thereto and, as promptly as reasonably possible, upon request, provide the Holders true and complete copies of all correspondence from and to the Commission relating to the Registration Statement; and (iv) comply in all material respects with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Registrable Securities covered by the Registration Statement during the applicable period in accordance with the intended methods of disposition by the Holders thereof set forth in the Registration Statement as so amended or in such Prospectus as so supplemented.

(c) Notify the Holders of Registrable Securities to be sold as promptly as reasonably possible (i) with respect to the Registration Statement or any post~effective amendment, when the same has become effective; (ii) of any request by the Commission or any other Federal or state governmental authority during the period of effectiveness of the Registration Statement for amendments or supplements to the Registration Statement or Prospectus; (iii) of the issuance by the Commission or any other federal or state governmental authority of any stop order suspending the effectiveness of the Registration Statement covering any or all of the Registrable

Securities or the initiation of any Proceedings for that purpose; (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and (v) of the occurrence of any event or passage of time that makes the financial statements included in the Registration Statement ineligible for inclusion therein or any statement made in the Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to the Registration Statement, Prospectus or other documents so that, in the case of the Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(d) Use best efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of the Registration Statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, at the earliest practicable moment.

(e) Furnish to each Holder, without charge, at least one conformed copy of the Registration Statement and each amendment thereto, including financial statements and schedules, all documents incorporated or deemed to be incorporated therein by reference to the extent requested by such Person, and all exhibits to the extent requested by such Person (including those previously furnished or incorporated by reference) promptly after the filing of such documents with the Commission.

(f) Promptly deliver to each Holder, without charge, as many copies of the Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto as such Persons may reasonably request in connection with resales by the Holder of Registrable Securities. Subject to the terms of this Agreement, the Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto, except after the giving on any notice pursuant to Section 3(c).

(g) If NASDR Rule 2710 requires any broker-dealer to make a filing prior to executing a sale by a Holder, make an Issuer Filing with the NASDR, Inc. Corporate Financing Department pursuant to NASDR Rule 2710(b)(10)(A)(i) and respond within five Trading Days to any comments received from NASDR in connection therewith, and pay the filing fee required in connection therewith.

(h) Prior to any resale of Registrable Securities by a Holder, use its commercially reasonable efforts to register or qualify or cooperate with the selling Holders in connection with the registration or qualification (or exemption from the Registration or qualification) of such Registrable Securities for the resale by the Holder under the securities or Blue Sky laws of such jurisdictions within the United States as any Holder reasonably requests in writing, to keep the Registration Statement or qualification (or exemption therefrom) effective during the

Effectiveness Period and to do any and all other acts or things reasonably necessary to enable the disposition in such jurisdictions of the Registrable Securities covered by the Registration Statement; provided, that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified, subject the Company to any material tax in any such jurisdiction where it is not then so subject or file a general consent to service of process in any such jurisdiction.

(i) If requested by the Holders, cooperate with the Holders to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be delivered to a transferee pursuant to the Registration Statement, which certificates shall be free, to the extent permitted by the Purchase Agreement, of all restrictive legends, and to enable such Registrable Securities to be in such denominations and registered in such names as any such Holders may request.

(j) Upon the occurrence of any event contemplated by Section 3(c)(v), as promptly as reasonably possible, prepare a supplement or amendment, including a post-effective amendment, to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither the Registration Statement nor such Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. If the Company notifies the Holders in accordance with clauses (ii) through (v) of Section 3(c) above to suspend the use of any Prospectus until the requisite changes to such Prospectus have been made, then the Holders shall suspend use of such Prospectus. The Company will use its best efforts to ensure that the use of the Prospectus may be resumed as promptly as is practicable. The Company shall be entitled to exercise its right under this Section 3(i) to suspend the availability of a Registration Statement and Prospectus, subject to the payment of partial liquidated damages pursuant to Section 2(b), for a period not to exceed 60 days (which need not be consecutive days) in any 12 month period.

(k) Comply with all applicable rules and regulations of the Commission.

(l) The Company may require each selling Holder to furnish to the Company a certified statement as to the number of shares of Common Stock beneficially owned by such Holder and, if required by the Commission, the person thereof that has voting and dispositive control over the Shares. During any periods that the Company is unable to meet its obligations hereunder with respect to the registration of the Registrable Securities solely because any Holder fails to furnish such information within three Trading Days of the Company's request, any liquidated damages that are accruing at such time as to such Holder only shall be tolled and any Event that may otherwise occur solely because of such delay shall be suspended as to such Holder only, until such information is delivered to the Company.

4. Registration Expenses. All fees and expenses incident to the performance of or compliance with this Agreement by the Company shall be borne by the Company whether or not any Registrable Securities are sold pursuant to the Registration Statement. The fees and expenses referred to in the foregoing sentence shall include, without limitation, (i) all registration and

filing fees (including, without limitation, fees and expenses (A) with respect to filings required to be made with the Trading Market on which the Common Stock is then listed for trading, (B) in compliance with applicable state securities or Blue Sky laws reasonably agreed to by the Company in writing (including, without limitation, fees and disbursements of counsel for the Company in connection with Blue Sky qualifications or exemptions of the Registrable Securities and determination of the eligibility of the Registrable Securities for investment under the laws of such jurisdictions as requested by the Holders) and (C) if not previously paid by the Company in connection with an Issuer Filing, with respect to any filing that may be required to be made by any broker through which a Holder intends to make sales of Registrable Securities with NASD Regulation, Inc. pursuant to the NASD Rule 2710, so long as the broker is receiving no more than a customary brokerage commission in connection with such sale, (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing prospectuses if the printing of prospectuses is reasonably requested by the holders of a majority of the Registrable Securities included in the Registration Statement), (iii) messenger, telephone and delivery expenses, (iv) fees and disbursements of counsel for the Company, (v) Securities Act liability insurance, if the Company so desires such insurance, and (vi) fees and expenses of all other Persons retained by the Company in connection with the consummation of the transactions

contemplated by this Agreement. In addition, the Company shall be responsible for all of its internal expenses incurred in connection with the consummation of the transactions contemplated by this Agreement (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit and the fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange as required hereunder. In no event shall the Company be responsible for any broker or similar commissions or, except to the extent provided for in the Transaction Documents, any legal fees or other costs of the Holders.

5. Indemnification

(a) Indemnification by the Company. The Company shall, notwithstanding any termination of this Agreement, indemnify and hold harmless each Holder, the officers, directors, agents, brokers (including brokers who offer and sell Registrable Securities as principal as a result of a pledge or any failure to perform under a margin call of Common Stock), investment advisors and employees of each of them, each Person who controls any such Holder (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, agents and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, costs (including, without limitation, reasonable attorneys' fees) and expenses (collectively, "Losses"), as incurred, arising out of or relating to any untrue or alleged untrue statement of a material fact contained in the Registration Statement, any Prospectus or any form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that (i) such untrue statements or omissions are based solely upon information regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or to the extent that such information relates to such Holder or

such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto (it being understood that the Holder has approved Annex A hereto for this purpose) or (ii) in the case of an occurrence of an event of the type specified in Section 3(c)(ii)-(vi), the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6(d). The Company shall notify the Holders promptly of the institution of any Proceeding arising from or in connection with the transactions contemplated by this Agreement of which the Company is aware.

(b) Indemnification by Holders. Each Holder shall, severally and not jointly, indemnify and hold harmless the Company, its directors, officers, agents and employees, each Person who controls the Company (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, agents or employees of such controlling Persons, to the fullest extent permitted by applicable law, from and against all Losses, as incurred, to the extent arising out of or based solely upon: (x) such Holder's failure to comply with the prospectus delivery requirements of the Securities Act or (y) any untrue or alleged untrue statement of a material fact contained in any Registration Statement, any Prospectus, or any form of prospectus, or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading (i) to the extent, but only to the extent, that such untrue statement or omission is contained in any information so furnished in writing by such Holder to the Company specifically for inclusion in the Registration Statement or such Prospectus or (ii) to the extent that (1) such untrue statements or

omissions are based solely upon information regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement (it being understood that the Holder has approved Annex A hereto for this purpose), such Prospectus or such form of Prospectus or in any amendment or supplement thereto or (2) in the case of an occurrence of an event of the type specified in Section 3(c)(ii)-(v), the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6(d). In no event shall the liability of any selling Holder hereunder be greater in amount than the dollar amount of the net proceeds received by such Holder upon the sale of the Registrable Securities giving rise to such indemnification obligation.

(c) Conduct of Indemnification Proceedings. If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "Indemnified Party"), such Indemnified Party shall promptly notify the Person from whom indemnity is sought (the "Indemnifying Party") in writing, and the Indemnifying Party shall have the right to assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that it shall be finally determined by a court of competent jurisdiction (which determination is not subject to appeal or further review) that such failure shall have prejudiced the Indemnifying Party.

An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (1) the Indemnifying Party has agreed in writing to pay such fees and expenses; (2) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; or (3) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall reasonably believe that a material conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and the reasonable fees and expenses of one separate counsel shall be at the expense of the Indemnifying Party, provided, however, that the Indemnifying Party shall in no event be liable for the reasonable fees and expenses of more than one legal counsel and, if applicable, one local counsel in any single action or group of related actions arising out of the same set of operative facts). The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding.

Subject to the terms of this Agreement, all reasonable fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not inconsistent with this Section) shall be paid to the Indemnified Party, as incurred, within ten Trading Days of written notice thereof to the Indemnifying Party; provided, that the Indemnified Party shall promptly reimburse the Indemnifying Party for that portion of such fees and expenses applicable to such actions for which such Indemnified Party is not entitled to indemnification hereunder, determined based upon the relative faults of the parties.

(d) Contribution. If the indemnification under Section 5(a) or 5(b) is

unavailable to an Indemnified Party or insufficient to hold an Indemnified Party harmless for any Losses, then each Indemnifying Party shall contribute to the amount paid or payable by such Indemnified Party, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the

parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in this Agreement, any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in accordance with its terms.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 5(d) were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section 5(d), no Holder shall be required to contribute, in the aggregate, any amount in excess of the amount by which the proceeds actually received by such Holder from the sale of the Registrable Securities subject to the Proceeding exceeds the amount of any damages that such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission, except in the case of fraud by such Holder.

The indemnity and contribution agreements contained in this Section are in addition to any liability that the Indemnifying Parties may have to the Indemnified Parties.

6. Miscellaneous

(a) Remedies. In the event of a breach by the Company or by a Holder, of any of their obligations under this Agreement, each Holder or the Company, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to seek specific performance of its rights under this Agreement. The Company and each Holder agree that monetary damages may not provide adequate compensation for any losses incurred by reason of a breach by it of any of the provisions of this Agreement.

(b) No Piggyback on Registrations. Except as set forth on Schedule 6(b) attached hereto, neither the Company nor any of its security holders (other than the Holders in such capacity pursuant hereto) may include securities of the Company in a Registration Statement other than the Registrable Securities. No Person has any right to cause the Company to effect the registration under the Securities Act of any securities of the Company. The Company shall not file any other registration statements until the Registration Statement required hereunder is declared effective by the Commission, provided that this Section 6(b) shall not prohibit the Company from filing amendments to registration statements already filed.

(c) Compliance. Each Holder covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to the Registration Statement.

(d) Discontinued Disposition. Each Holder agrees by its acquisition of

such Registrable Securities that, upon receipt of a notice from the Company of the occurrence of any event of the kind described in Section 3(c), such Holder will forthwith discontinue disposition of such Registrable Securities under the Registration Statement until such Holder's receipt of the copies of the supplemented Prospectus and/or amended Registration Statement, or until it is advised in writing (the "Advice") by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement. The Company will use its best efforts to ensure that the use of the Prospectus may be resumed as promptly as it practicable. The Company agrees and acknowledges that any periods during which the Holder is required to discontinue the disposition of the Registrable Securities hereunder shall be subject to the provisions of Section 2(b).

(e) Piggy-Back Registrations. If at any time during the Effectiveness Period there is not an effective Registration Statement covering all of the Registrable Securities and the Company shall determine to prepare and file with the Commission a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with the stock option or other employee benefit plans, then the Company shall send to each Holder a written notice of such determination and, if within fifteen days after the date of such notice, any such Holder shall so request in writing, the Company shall include in such registration statement all or any part of such Registrable Securities such Holder requests to be registered, subject to customary underwriter cutbacks applicable to all holders of registration rights.

(f) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and each Holder of the then outstanding Registrable Securities. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders and that does not directly or indirectly affect the rights of other Holders may be given by Holders of all of the Registrable Securities to which such waiver or consent relates; provided, however, that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence.

(g) Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be delivered as set forth in the Purchase Agreement.

(h) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties and shall inure to the benefit of each Holder. The Company may not assign its rights or obligations hereunder without the prior written consent of all of the Holders of the then-outstanding Registrable Securities. Each Holder may assign their respective rights hereunder in the manner and to the Persons as permitted under the Purchase Agreement.

(i) No Inconsistent Agreements. Neither the Company nor any of its subsidiaries has entered, as of the date hereof, nor shall the Company or any of its subsidiaries, on or after the date of this Agreement, enter into any agreement with respect to its securities, that would have the effect of impairing the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof. Except as set forth on Schedule 6(i), neither the Company nor any of its subsidiaries has previously entered into any agreement granting any registration rights with respect to any of its securities to any Person that have not been satisfied in full.

(j) Execution and Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile

transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

(k) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be determined with the provisions of the Purchase Agreement.

(l) Cumulative Remedies. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

(m) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(n) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(o) Independent Nature of Holders' Obligations and Rights. The obligations of each Holder hereunder are several and not joint with the obligations of any other Holder hereunder, and no Holder shall be responsible in any way for the performance of the obligations of any other Holder hereunder. Nothing contained herein or in any other agreement or document delivered at any closing, and no action taken by any Holder pursuant hereto or thereto, shall be deemed to constitute the Holders as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Holders are in any way acting in concert with respect to such obligations or the transactions contemplated by this Agreement. Each Holder shall be entitled to protect and enforce its rights, including without limitation the rights arising out of this Agreement, and it shall not be necessary for any other Holder to be joined as an additional party in any proceeding for such purpose.

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

COMMON HORIZONS, INC.

By:

Name:
Title:

[SIGNATURE PAGE OF HOLDERS FOLLOWS]

[SIGNATURE PAGE OF HOLDERS TO NOVELOS RRA]

Name of Holder:

Signature of Authorized Signatory of Holder:

Name of Authorized Signatory:

Title of Authorized Signatory:

[SIGNATURE PAGES CONTINUE]

Plan of Distribution

Each Selling Stockholder (the "Selling Stockholders") of the common stock ("Common Stock") of Common Horizons, Inc., a Nevada corporation (the "Company") and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of Common Stock on the Trading Market or any other stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. A Selling Stockholder may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- settlement of short sales entered into after the date of this prospectus;
- broker-dealers may agree with the Selling Stockholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise; or
- any other method permitted pursuant to applicable law.

The Selling Stockholders may also sell shares under Rule 144 under the Securities Act of 1933, as amended (the "Securities Act"), if available, rather than under this prospectus.

Broker-dealers engaged by the Selling Stockholders may arrange for

other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the Selling Stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this Prospectus, in the case of an agency transaction not in excess of a customary brokerage commission in compliance with NASDR Rule 2440; and in the case of a principal transaction a markup or markdown in compliance with NASDR IM-2440.

In connection with the sale of the Common Stock or interests therein, the Selling Stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the Common Stock in the course of hedging the positions they assume. The Selling Stockholders may also sell shares of the Common Stock short and deliver these securities to close out their short positions, or loan or pledge the Common Stock to broker-dealers that in turn may sell these securities. The Selling Stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The Selling Stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each Selling Stockholder has informed the Company that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the Common Stock.

The Company is required to pay certain fees and expenses incurred by the Company incident to the registration of the shares. The Company has agreed to indemnify the Selling Stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Because Selling Stockholders may be deemed to be "underwriters" within the meaning of the Securities Act, they will be subject to the prospectus delivery requirements of the Securities Act. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act may be sold under Rule 144 rather than under this prospectus. Each Selling Stockholder has advised us that they have not entered into any written or oral agreements, understandings or arrangements with any underwriter or broker-dealer regarding the sale of the resale shares. There is no underwriter or coordinating broker acting in connection with the proposed sale of the resale shares by the Selling Stockholders.

We agreed to keep this prospectus effective until the earlier of (i) the date on which the shares may be resold by the Selling Stockholders without registration and without regard to any volume limitations by reason of Rule 144(e) under the Securities Act or any other rule of similar effect or (ii) all of the shares have been sold pursuant to the prospectus or Rule 144 under the Securities Act or any other rule of similar effect. The resale shares will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale shares may not simultaneously engage in market making activities with respect to the Common Stock for a period of two business days prior to the commencement of the distribution. In addition, the Selling Stockholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of the Common Stock by the Selling Stockholders or any other person. We will make copies of this prospectus available to the Selling Stockholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the

time of the sale.

ANNEX B

COMMON HORIZONS, INC.

SELLING SECURITYHOLDER NOTICE AND QUESTIONNAIRE

The undersigned beneficial owner of common stock, par value $0.001 per share (the "Common Stock"), of Common Horizons, Inc., a Nevada corporation (the "Company"), (the "Registrable Securities") understands that the Company has filed or intends to file with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-3 (the "Registration Statement") for the registration and resale under Rule 415 of the Securities Act of 1933, as amended (the "Securities Act"), of the Registrable Securities, in accordance with the terms of the Registration Rights Agreement, dated as of May __, 2005 (the "Registration Rights Agreement"), among the Company and the Purchasers named therein. A copy of the Registration Rights Agreement is available from the Company upon request at the address set forth below. All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Registration Rights Agreement.

Certain legal consequences arise from being named as a selling securityholder in the Registration Statement and the related prospectus. Accordingly, holders and beneficial owners of Registrable Securities are advised to consult their own securities law counsel regarding the consequences of being named or not being named as a selling securityholder in the Registration Statement and the related prospectus.

NOTICE

The undersigned beneficial owner (the "Selling Securityholder") of Registrable Securities hereby elects to include the Registrable Securities owned by it and listed below in Item 3 (unless otherwise specified under such Item 3) in the Registration Statement.

The undersigned hereby provides the following information to the Company and represents and warrants that such information is accurate:

QUESTIONNAIRE

1. NAME.

(a) Full Legal Name of Selling Securityholder

(b) Full Legal Name of Registered Holder (if not the same as (a) above) through which Registrable Securities Listed in Item 3 below are held:

(c) Full Legal Name of Natural Control Person (which means a natural person who directly or indirectly alone or with others has power to vote or dispose of the securities covered by the questionnaire):

---

2. ADDRESS FOR NOTICES TO SELLING SECURITYHOLDER:

- ----------

- ----------

- ----------

Telephone:

Fax:

Contact Person:
---

3. BENEFICIAL OWNERSHIP OF REGISTRABLE SECURITIES:

(a) Type and Number of Registrable Securities beneficially owned:

---

4. BROKER-DEALER STATUS:

(a) Are you a broker-dealer?

Yes [ ] No [ ]

(b) If "yes" to Section 4(a), did you receive your Registrable Securities as compensation for investment banking services to the Company.

Yes [ ] No [ ]

Note: If no, the Commission's staff has indicated that you should be identified as an underwriter in the Registration Statement.

(c) Are you an affiliate of a broker-dealer?

Yes [ ] No [ ]

(d) If you are an affiliate of a broker-dealer, do you certify that you bought the Registrable Securities in the ordinary course of business, and at the time of the purchase of the Registrable Securities to be resold, you had no agreements or understandings, directly or indirectly, with any person to distribute the Registrable Securities?

Yes [ ] No [ ]

Note: If no, the Commission's staff has indicated that you should be identified as an underwriter in the Registration Statement.

5. BENEFICIAL OWNERSHIP OF OTHER SECURITIES OF THE COMPANY OWNED BY THE SELLING SECURITYHOLDER.

Except as set forth below in this Item 5, the undersigned is not the beneficial or registered owner of any securities of the Company other

than the Registrable Securities listed above in Item 3.

(a) Type and Amount of Other Securities beneficially owned by the Selling Securityholder:

---

6. RELATIONSHIPS WITH THE COMPANY:

Except as set forth below, neither the undersigned nor any of its affiliates, officers, directors or principal equity holders (owners of 5% of more of the equity securities of the undersigned) has held any position or office or has had any other material relationship with the Company (or its predecessors or affiliates) during the past three years.

State any exceptions here:

The undersigned agrees to promptly notify the Company of any inaccuracies or changes in the information provided herein that may occur subsequent to the date hereof at any time while the Registration Statement remains effective.

By signing below, the undersigned consents to the disclosure of the information contained herein in its answers to Items 1 through 6 and the inclusion of such information in the Registration Statement and the related prospectus and any amendments or supplements thereto. The undersigned understands that such information will be relied upon by the Company in connection with the preparation or amendment of the Registration Statement and the related prospectus.

IN WITNESS WHEREOF the undersigned, by authority duly given, has caused this Notice and Questionnaire to be executed and delivered either in person or by its duly authorized agent.

Dated: Beneficial Owner:

--- ---

By:

Name:

Title:

PLEASE FAX A COPY OF THE COMPLETED AND EXECUTED NOTICE AND QUESTIONNAIRE, AND RETURN THE ORIGINAL BY OVERNIGHT MAIL, TO:

EXHIBIT B

NEITHER THIS SECURITY NOR THE SECURITIES INTO WHICH THIS SECURITY IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE

SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

COMMON STOCK PURCHASE WARRANT

To Purchase Shares of Common Stock of

COMMON HORIZONS, INC.

THIS COMMON STOCK PURCHASE WARRANT (the "Warrant") certifies that, for value received, (the "Holder"), is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after the date hereof (the "Initial Exercise Date") and on or prior to the close of business on the three year anniversary of the final Closing Date (the "Termination Date") but not thereafter, to subscribe for and purchase from Common Horizons, Inc., a Nevada corporation (the "Company"), up to shares (the "Warrant Shares") of Common Stock, par value $0.001 per share, of the Company (the "Common Stock"). The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Securities Purchase Agreement (the "Purchase Agreement"), dated May ____, 2005, among Novelos Therapeutics, Inc., the Company and the purchasers signatory thereto.

Section 2. Exercise.

a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before the Termination Date by delivery to the Company of a duly executed facsimile copy of the Notice of Exercise Form annexed hereto (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of such Holder appearing on the books of the Company); provided, however, within 5 Trading Days of the date said Notice of Exercise is delivered to the Company, the Holder shall have surrendered this Warrant to the Company and the Company shall have received payment of the aggregate Exercise Price of the shares thereby purchased by wire transfer or cashier's check drawn on a United States bank.

b) Exercise Price. The exercise price of the Common Stock under this Warrant shall be $2.25, subject to adjustment hereunder (the "Exercise Price").

c) Cashless Exercise. If at any time after one year from the date of issuance of this Warrant there is no effective Registration Statement registering, or no current prospectus available for, the resale of the Warrant Shares by the Holder, then this Warrant may also be exercised at such time by means of a "cashless exercise" in which the Holder shall be entitled to receive a certificate for the number of Warrant Shares equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = the Closing Price on the Trading Day immediately preceding the date of such election;

(B) = the Exercise Price of this Warrant, as adjusted; and

(X) = the number of Warrant Shares issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

The Company agrees that it will give the Holder written notice that the Warrant is about to expire not less than thirty and not more than sixty days before the Termination Date.

d) Exercise Limitations.

i. Holder's Restrictions. At any time after the Common Stock is registered under Section 12 of the Exchange Act, the Holder shall not have the right to exercise any portion of this Warrant, pursuant to Section 2(c) or otherwise, to the extent that after giving effect to such issuance after exercise, the Holder (together with the Holder's affiliates), as set forth on the applicable Notice of Exercise, would beneficially own in excess of 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to such issuance. For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by the Holder and its affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which the determination of such sentence is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (A) exercise of the remaining, nonexercised portion of this Warrant beneficially owned by the Holder or any of its affiliates and (B) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company (including, without limitation, any other Shares

or Warrants) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its affiliates. Except as set forth in the preceding sentence, for purposes of this Section 2(d), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act, it being acknowledged by Holder that the Company is not representing to Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 2(d) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder) and of which a portion of this Warrant is exercisable shall be in the sole discretion of such Holder, and the submission of a Notice of Exercise shall be deemed to be such Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by such Holder) and of which portion of this Warrant is exercisable, in each case subject to such aggregate percentage limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. For purposes of this Section 2(d), in determining the number of outstanding shares of Common Stock, the Holder may rely on the number of outstanding shares of Common Stock as reflected in (x) information contained in the Company's most recent filings under the Exchange Act or the Securities Act, (y) a more recent public announcement by the Company or (z) any other notice by the Company or the Company's Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of the Holder, the Company shall within two Trading Days confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant,

by the Holder or its affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The provisions of this Section 2(d) may be waived by the Holder, at the election of the Holder, upon not less than 61 days' prior notice to the Company, and the provisions of this Section 2(d) shall continue to apply until such 61st day (or such later date, as determined by the Holder, as may be specified in such notice of waiver).

e) Mechanics of Exercise.

i. Authorization of Warrant Shares. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

ii. Delivery of Certificates Upon Exercise. Certificates for shares purchased hereunder shall be transmitted by the transfer agent of the Company to the Holder by crediting the account of the Holder's prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission ("DWAC") system if the Company is a participant in such system, and otherwise by physical delivery to the address specified by the Holder in the Notice of Exercise within 3 Trading Days from the delivery to the Company of the Notice of Exercise Form, surrender of this Warrant and payment of the aggregate Exercise Price as set forth above ("Warrant Share Delivery Date"). This Warrant shall be deemed to have been exercised on the date the Exercise Price is received by the Company. The Warrant Shares shall be deemed to have been issued, and Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised by payment to the Company of the Exercise Price and all taxes required to be paid by the Holder, if any, pursuant to Section 2(e)(vii) prior to the issuance of such shares, have been paid.

iii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the time of delivery of the certificate or certificates representing Warrant Shares, deliver to Holder a new Warrant evidencing the rights of Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iv. Rescission Rights. If the Company fails to cause its transfer agent to transmit to the Holder a certificate or certificates representing the Warrant Shares pursuant to this Section 2(e)(iv) by the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise.

v. Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Exercise. In addition to any other rights available to the Holder, if the Company fails to cause its transfer agent to transmit to the Holder a certificate or certificates representing the Warrant Shares pursuant to an exercise on or before the Warrant Share Delivery Date, and if after such date the Holder is required by its broker to purchase (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall (1) pay in cash to the Holder the amount by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so

purchased exceeds (y) the amount obtained by multiplying (A) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue times (B) the price at which the sell order giving rise to

such purchase obligation was executed, and (2) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. For example, if the Holder purchases Common Stock having a total purchase price of $11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with an aggregate sale price giving rise to such purchase obligation of $10,000, under clause (1) of the immediately preceding sentence the Company shall be required to pay the Holder $1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In, together with applicable confirmations and other evidence reasonably requested by the Company. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing shares of Common Stock upon exercise of the Warrant as required pursuant to the terms hereof.

vi. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which Holder would otherwise be entitled to purchase upon such exercise, the Company shall pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price.

vii. Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder; and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

viii. Closing of Books. The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

Section 3. Certain Adjustments.

a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (A) pays a stock dividend or otherwise make a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock

(which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company pursuant to this Warrant), (B) subdivides outstanding shares of Common Stock into a larger number of shares, (C) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (D) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Subsequent Equity Sales. If the Company or any Subsidiary thereof, as applicable, at any time while this Warrant is outstanding, shall offer, sell, grant any option to purchase or offer, sell or grant any right to reprice its securities, or otherwise dispose of or issue (or announce any offer, sale, grant or any option to purchase or other disposition) any Common Stock or Common Stock Equivalents entitling any Person to acquire shares of Common Stock, at an effective price per share less than the then Exercise Price (such lower price, the "Base Share Price" and such issuances collectively, a "Dilutive Issuance"), as adjusted hereunder (if the holder of the Common Stock or Common Stock Equivalents so issued shall at any time, whether by operation of purchase price adjustments, reset provisions, floating conversion, exercise or exchange prices or otherwise, or due to warrants, options or rights per share which is issued in connection with such issuance, be entitled to receive shares of Common Stock at an effective price per share which is less than the Exercise Price, such issuance shall be deemed to have occurred for less than the Exercise Price on such date of the Dilutive Issuance), then, the Exercise Price shall be reduced and only reduced to equal the Base Share Price and the number of Warrant Shares issuable hereunder shall be increased such that the aggregate Exercise Price payable hereunder, after taking into account the decrease in the Exercise Price, shall be equal to the aggregate Exercise Price prior to such adjustment. Such adjustment shall be made whenever such Common Stock or Common Stock Equivalents are issued. Notwithstanding the foregoing, no adjustments shall be made, paid or issued under this Section 3(b) in respect of an Exempt Issuance. The Company shall notify the Holder in writing, no later than the Trading Day following the issuance of any Common Stock or Common Stock Equivalents subject to this section, indicating therein the applicable issuance price, or of applicable reset price, exchange price, conversion price and other pricing terms (such notice the "Dilutive Issuance Notice"). For purposes of clarification, whether or not the Company provides a Dilutive Issuance Notice pursuant to this Section 3(b), upon the occurrence of any Dilutive Issuance, after the date of such Dilutive Issuance the Holder is entitled to receive a number of Warrant Shares based upon the Base Share Price regardless of whether the Holder accurately refers to the Base Share Price in the Notice of Exercise.

c) Pro Rata Distributions. If the Company, at any time prior to the Termination Date, shall distribute to all holders of Common Stock (and not to Holders of the Warrants) evidences of its indebtedness or assets (including cash and

cash dividends) or rights or warrants to subscribe for or purchase any security other than the Common Stock (which shall be subject to Section 3(b)), then in each such case the Exercise Price shall be adjusted by multiplying the Exercise Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the Closing Price determined as of the record date mentioned above, and of which the numerator shall be such Closing Price on such record date less the then per share fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of the Common Stock as determined by the Board of Directors in good faith. In either case the adjustments shall be described in a statement provided to the Holder of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

d) Fundamental Transaction. If, at any time while this Warrant is outstanding, (A) the Company effects any merger or consolidation of the Company with or into another Person, (B) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (D) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a "Fundamental Transaction"), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder, (a) upon exercise of this Warrant, the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable upon or as a result of such reorganization, reclassification, merger, consolidation or disposition of assets by a Holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event or (b) if the Company is acquired in an all cash transaction, cash equal to the value of this Warrant as determined in accordance with the Black-Scholes option pricing formula. For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are

given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. To the extent necessary to effectuate

the foregoing provisions, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant consistent with the foregoing provisions and evidencing the Holder's right to exercise such warrant into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 3(d) and insuring that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

e) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

f) Voluntary Adjustment By Company. The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

g) Notice to Holders.

i. Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to this Section 3, the Company shall promptly mail to each Holder a notice setting forth the Exercise Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment. If the Company issues a variable rate security, despite the prohibition thereon in the Purchase Agreement, the Company shall be deemed to have issued Common Stock or Common Stock Equivalents at the lowest possible conversion or exercise price at which such securities may be converted or exercised on the date of such issuance in the case of a Variable Rate Transaction (as defined in the Purchase Agreement).

ii. Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution) on the Common Stock; (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock; (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights; (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, of any compulsory share exchange whereby the Common Stock is converted into

other securities, cash or property; (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company; then, in each case, the Company shall cause to be mailed to the Holder at its last address as it shall appear upon the Warrant Register of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter

specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided, that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. The Holder is entitled to exercise this Warrant during the 20-day period commencing on the date of such notice to the effective date of the event triggering such notice.

Section 4. Transfer of Warrant.

a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Sections 5(a) and 4(d) hereof and to the provisions of Section 4.1 of the Purchase Agreement, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such transfer (i) that the Holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such transfer may be made without registration under the Securities Act and under applicable state securities or blue sky laws, (ii) that the holder or transferee execute and deliver to the Company an investment letter in form and substance acceptable to the Company and (iii) that the transferee be an

"accredited investor" as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7), or (a)(8) promulgated under the Securities Act or a qualified institutional buyer as defined in Rule 144A(a) under the Securities Act.

Section 5. Miscellaneous.

a) Title to Warrant. Prior to the Termination Date and subject to compliance with applicable laws and Section 4 of this Warrant, this Warrant and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company by the Holder in person or by duly authorized attorney, upon surrender of this Warrant together with the Assignment Form annexed hereto properly endorsed. The transferee shall sign an investment letter in form and substance reasonably satisfactory to the Company.

b) No Rights as Shareholder Until Exercise. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof. Upon the surrender of this Warrant and the payment of the aggregate Exercise Price (or by means of a cashless exercise), the Warrant Shares so purchased shall be and be deemed to be issued to such Holder as the record owner of such shares as of the close of business on the later of the date of such surrender or payment.

c) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

d) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday, Sunday or legal holiday.

e) Authorized Shares.

The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Stock may be listed.

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (a) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (b) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares

upon the exercise of this Warrant, and (c) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable the Company to perform its obligations under this Warrant.

Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

f) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Purchase Agreement.

g) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, will have restrictions upon resale imposed by state and federal securities laws.

h) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Termination Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

i) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement.

j) Limitation of Liability. No provision hereof, in the absence of any affirmative action by Holder to exercise this Warrant or purchase Warrant Shares, and no enumeration herein of the rights or privileges of Holder, shall give rise to any liability of Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

k) Remedies. Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to seek specific performance of its rights under this Warrant. The Company agrees that monetary damages may not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant.

l) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and shall be enforceable by any such Holder or holder of Warrant Shares.

m) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

n) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

o) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

****

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Dated: May __, 2005

COMMON HORIZONS, INC.

By:

Name:
Title:

NOTICE OF EXERCISE

To: COMMON HORIZONS, INC.

(1)_____The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2)_____Payment shall take the form of (check applicable box):

[ ] in lawful money of the United States; or

[ ] the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 2(c), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 2(c).

(3)_____Please issue a certificate or certificates representing said Warrant Shares in the name of the undersigned or in such other name as is specified below:

The Warrant Shares shall be delivered to the following:

---

(4) Accredited Investor. The undersigned is an "accredited investor" as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]
Name of Investing Entity:

Signature of Authorized Signatory of Investing Entity:

Name of Authorized Signatory:

Title of Authorized Signatory:

Date:

ASSIGNMENT FORM

(To assign the foregoing warrant, execute
this form and supply required information.
Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

whose address is
- ---

- ---.

- ---

Dated: ,
--- ---

Holder's Signature:

Holder's Address:

Signature Guaranteed:

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

EXECUTION COPY

==========

AGREEMENT AND PLAN OF MERGER

by and among

COMMON HORIZONS, INC.,

NOVE ACQUISITION, INC.

and

NOVELOS THERAPEUTICS, INC.

May 26, 2005

==========

==========

TABLE OF CONTENTS

<TABLE>

</TABLE>

LIST OF EXHIBITS

Exhibits

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER is entered into as of May 26, 2005 by and among COMMON HORIZONS, INC., a Nevada corporation ("Parent"), NOVE ACQUISITION, INC., a Delaware corporation and a wholly-owned subsidiary of Parent ("Acquisition Corp."), and NOVELOS THERAPEUTICS, INC., a Delaware corporation (the "Company").

W I T N E S S E T H:

WHEREAS, the Company is primarily engaged in the business of commercializing oxidized glutathione-based compounds initially for the treatment of certain cancers and hepatitis;

WHEREAS, the Board of Directors of each of Parent, Acquisition Corp. and the Company has approved, and deems it advisable and in the best interests of its stockholders to consummate, the acquisition of the Company by Parent, which acquisition is to be effected by the merger of Acquisition Corp. with and into the Company, with the Company being the surviving entity (the "Merger"), upon the terms and subject to the conditions set forth in this Agreement (as defined herein);

WHEREAS, the parties hereto intend that the Merger shall qualify as a

reorganization within the meaning of Section 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended (the "Code"), by reason of Section 368(a)(2)(E) of the Code; and

WHEREAS, simultaneously with the Closing (as defined herein), Parent (as it will exist as of the Closing Date (as defined herein)) is selling units consisting of shares of its common stock, par value $0.001 per share (the "Parent Common Stock"), and detachable warrants to purchase shares of Parent Common Stock in a Private Placement (as defined herein) pursuant to the terms of a Confidential Private Placement Memorandum, dated April __, 2005 (as amended or supplemented from time to time, the "Memorandum"), for the purpose of causing the business of the Surviving Corporation (as defined herein) to include the business of the Company following the Merger.

NOW, THEREFORE, in consideration of the mutual agreements and covenants hereinafter set forth, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

Capitalized terms used in this Agreement shall have the following meanings:

"Acquisition Corp." shall have the meaning given to such term in the preamble to this Agreement.

"Acquisition Proposal" shall have the meaning given to such term in Section 6.2 hereof.

"Action" shall mean any claim, action, suit, proceeding, investigation or order.

"Affiliate" shall mean, with respect to any Person, any Person directly or indirectly controlling, controlled by or under common control with, such Person. For the purposes of this definition, "control" (including, with correlative meaning, the terms "controlling," "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of management and policies of such Person through the ownership of voting securities, by contract or otherwise.

"Agreement" shall mean this Agreement and Plan of Merger, including the Company Disclosure Schedule, the Parent Disclosure Schedule and the exhibits attached hereto or referred to herein, as the same may be amended or modified from time to time in accordance with the provisions hereof.

"Balance Sheet" shall have the meaning given to such term in Section 4.5 hereof.

"Balance Sheet Date" shall have the meaning given to such term in Section 4.5 hereof.

"By-laws" shall have the meaning given to such term in Section 2.3(b) hereof.

"Certificate of Incorporation" shall have the meaning given to such term in Section 2.3(a) hereof.

"Closing" shall have the meaning given to such term in Section 2.5 hereof.

"Closing Date" shall have the meaning given to such term in Section 2.5 hereof.

"Code" shall have the meaning given to such term in the third recital to this Agreement.

"Commission" shall mean the United States Securities and Exchange Commission.

"Common Stock Options" shall have the meaning given to such term in Section 3.3(a) hereof.

"Company" shall have the meaning given to such term in the preamble to this Agreement.

"Company Capital Stock" shall mean, collectively, the Company Common Stock and the Company Preferred Stock.

"Company Common Stock" shall mean the common stock, par value $0.00001 per share, of the Company.

"Company Material Adverse Effect" shall mean any change, effect or circumstance that by itself, or together with other changes, effects and circumstances is materially adverse or is reasonably likely to be materially adverse to the business, assets, liabilities, condition (financial or otherwise) or operations of the Company and its subsidiaries, taken as a whole.

"Company Preferred Stock" shall mean, collectively, the authorized preferred stock, no par value, of the Company.

"Contract" shall have the meaning given to such term in Section 4.4 hereof.

"Consents" shall mean any permits, filings, notices, licenses, consents, authorizations, accreditation, waivers, approvals and the like of, to, with or by any Person.

"DGCL" shall mean the General Corporation Law of the State of Delaware, as amended.

"Dissenting Shares" shall have the meaning given to such term in Section 3.2(d) hereof.

"Effective Time" shall have the meaning given to such term in Section 2.2 hereof.

"Employee Benefit Plans" shall have the meaning assigned to it in Section 4.13 hereof.

"Environmental Law" shall mean the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. ss.ss. 9601 et seq.; the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. ss.ss. 11001 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. ss.ss. 6901 et seq.; the Toxic Substances Control Act, 15 U.S.C. ss.ss. 2601 et seq.; the Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. ss.ss. 136 et seq. and comparable state statutes dealing with the registration, labeling and use of pesticides and herbicides; the Clean Air Act, 42 U.S.C. ss.ss. 7401 et seq.; the Clean Water Act (Federal Water Pollution Control Act), 33 U.S.C. ss.ss. 1251 et seq.; the Safe Drinking Water Act, 42 U.S.C. ss.ss. 300f et seq.; and the Hazardous Materials Transportation Act, 49 U.S.C. ss.ss. 1801 et seq., as any of the above referenced statutes have been amended as of the date hereof, all rules, regulations and policies promulgated pursuant to any of the above referenced statutes, and any other foreign, federal, state or local law, statute, ordinance, rule, regulation or policy governing environmental matters, as the same have been amended as of the date hereof.

"ERISA" shall mean the Employee Retirement Income Securities Act of 1974, as amended, and the regulations issued thereunder.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations issued thereunder.

"GAAP" shall mean generally accepted accounting principles as in effect from time to time in the United States consistently applied.

"Hazardous Material" means any substance or material meeting any one or more of the following criteria: (a) it is or contains a substance designated as or meeting the characteristics of a hazardous waste, hazardous substance, hazardous material, pollutant, chemical substance or mixture, contaminant or toxic substance under any Environmental Law; (b) its presence at some quantity requires investigation, notification or remediation under any Environmental Law; (c) it contains, without limiting the foregoing, asbestos, polychlorinated

biphenyls, petroleum hydrocarbons, petroleum derived substances or waste, pesticides, herbicides, crude oil or any fraction thereof, nuclear fuel, natural gas or synthetic gas; or (d) mold.

"Incentive Plans" shall have the meaning given to such term in Section 3.3(d) hereof.

"Indebtedness" shall mean any obligation of the Company that under GAAP is required to be shown on the Balance Sheet of the Company as a Liability. Any obligation secured by a Lien on, or payable out of the proceeds of production from, property of the Company shall be deemed to be Indebtedness even though such obligation is not assumed by the Company.

"Indebtedness for Borrowed Money" shall mean (a) all Indebtedness in respect of money borrowed including, without limitation, Indebtedness which represents the unpaid amount of the purchase price of any property and is incurred in lieu of borrowing money or using available funds to pay such amounts and not constituting an account payable or expense accrual incurred or assumed in the ordinary course of business of the Company, (b) all Indebtedness evidenced by a promissory note, bond or similar written obligation to pay money, or (c) all such Indebtedness guaranteed by the Company or for which the Company is otherwise contingently liable.

"Information Statement" shall have the meaning given to such term in Section 7.7 hereof.

"Intellectual Property" shall have the meaning given to such term in Section 4.12(b) hereof.

"Investment Company Act" shall mean the Investment Company Act of 1940, as amended.

"Letter of Transmittal" shall have the meaning assigned to it in Section 3.2 hereof.

"Liability" shall mean any and all liability, debt, obligation, deficiency, Tax, penalty, fine, claim, cause of action or other loss, cost or expense of any kind or nature whatsoever, whether asserted or unasserted, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, and whether due or to become due and regardless of when asserted.

"Lien" shall mean any mortgage, pledge, security interest, encumbrance, lien or charge of any kind, including, without limitation, any conditional sale or other title retention agreement, any lease in the nature thereof and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction and including any lien or charge arising by statute or other law.

"Memorandum" shall have the meaning given to such term in the fourth recital to this Agreement.

"Merger" shall have the meaning given to such term in the second recital to this Agreement.

"Parent" shall have the meaning given to such term in the preamble to this Agreement.

"Parent Balance Sheet" shall have the meaning assigned to such term in Section 5.13 hereof.

"Parent Balance Sheet Date" shall have the meaning assigned to it in Section 5.13 hereof.

"Parent Common Stock" shall have the meaning given to such term in the fourth recital to this Agreement.

"Parent Employee Benefit Plans" shall have the meaning assigned to such term in Section 5.16 hereof.

"Parent Financial Statements" shall have the meaning assigned to such term in Section 5.11 hereof.

"Parent Material Adverse Effect" means any change, effect or circumstance that by itself, or together with other changes, effects and circumstances is materially adverse or is reasonably likely to be materially adverse to the business, assets, liabilities, condition (financial or otherwise) or operations of Parent and its subsidiaries, taken as a whole.

"Parent SEC Documents" shall have the meaning assigned to such term in Section 5.10(b) hereof.

"Permitted Liens" shall mean (a) Liens for taxes and assessments or governmental charges or levies not at the time due or in respect of which the validity thereof shall currently be contested in good faith by appropriate proceedings; (b) Liens in respect of pledges or deposits under workmen's compensation laws or similar legislation, carriers', warehousemen's, mechanics', laborers' and materialmens' and similar Liens, if the obligations secured by such Liens are not then delinquent or are being contested in good faith by appropriate proceedings; and (c) Liens incidental to the conduct of the business of the Company that were not incurred in connection with the borrowing of money or the obtaining of advances or credits and which do not in the aggregate materially detract from the value of its property or materially impair the use made thereof by the Company in its business.

"Person" shall mean any individual, corporation, limited liability company, partnership, joint venture, trust or other entity or organization, including any government or political subdivision or an agency or instrumentality thereof.

"Placement Agent" shall mean the lead placement agent engaged to assist Parent in the sale of units offered in the Private Placement.

"Private Placement" shall mean the private placement offering to accredited investors of units consisting of shares of Parent Common Stock and detachable warrants to purchase Parent Common Stock pursuant to the terms of the Memorandum.

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations issued thereunder.

"Stockholder" shall mean any record holder of Company Capital Stock.

"Surviving Corporation" shall have the meaning given to such term in Section 2.1 hereof.

"Tax" or "Taxes" shall mean (a) any and all taxes, assessments, customs, duties, levies, fees, tariffs, imposts, deficiencies and other governmental charges of any kind whatsoever (including, but not limited to, taxes on or with respect to net or gross income, franchise, profits, gross receipts, capital, sales, use, ad valorem, value added, transfer, real property transfer, transfer gains, transfer taxes, inventory, capital stock, license, payroll, employment, social security, unemployment, severance, occupation, real or personal property, estimated taxes, rent, excise, occupancy, recordation, bulk transfer, intangibles, alternative minimum, doing business, withholding and stamp), together with any interest thereon, penalties, fines, damages costs, fees, additions to tax or additional amounts with respect thereto, imposed by the United States (federal, state or local) or other applicable jurisdiction; (b) any liability for the payment of any amounts described in clause (a) as a result of being a member of an affiliated, consolidated, combined, unitary or similar group or as a result of transferor or successor liability, including, without limitation, by reason of Code Section 1.1502-6; and (c) any liability for the payments of any amounts as a result of being a party to any Tax Sharing Agreement or as a result of any express or implied obligation to indemnify any other Person with respect to the payment of any amounts of the type described in either clauses (a) or (b).

"Tax Return" shall include all returns and reports (including elections, declarations, disclosures, schedules, estimates and information returns (including Form 1099 and partnership returns filed on Form 1065)) required to be supplied to a Tax authority relating to Taxes.

"Tax Sharing Agreements" shall have the meaning given to such term in Section 4.15 hereof.

ARTICLE II
THE MERGER

Section 2.1 Merger. Upon the terms and subject to the conditions of this Agreement, at the Effective Time, Acquisition Corp. shall be merged with and into the Company in accordance with Section 251 of the DGCL. Following the Effective Time, the separate corporate existence of Acquisition Corp. shall cease, and the Company shall continue as the corporation surviving the Merger (sometimes hereinafter referred to as the "Surviving Corporation").

Section 2.2 Effective Time. The Company and Acquisition Corp. shall cause a certificate of merger to be filed on the Closing Date (or on such other date as the Company and Parent may agree in writing) with the Secretary of State of Delaware as provided in Section 251 of the DGCL, and shall make all other filings or recordings required by the DGCL in connection with the Merger. The Merger shall become effective at such time as the certificate of merger is duly filed in accordance with Section 251 of the DGCL with the Secretary of State of the State of Delaware or such later time as specified in the certificate of merger, and such time is hereinafter referred to as the "Effective Time."

Section 2.3 Certificate of Incorporation; By-laws; Directors and Officers.

(a) The certificate of incorporation of Acquisition Corp. as in effect immediately prior to the Effective Time, a copy of which is attached as Exhibit A hereto, shall be the certificate of incorporation of the Surviving Corporation (the "Certificate of Incorporation") from and after the Effective Time until thereafter changed or amended as provide therein or in accordance with applicable law.

(b) The by-laws of Acquisition Corp. as in effect immediately prior to the Effective Time, a copy of which is attached as Exhibit B hereto, shall be the by-laws of the Surviving Corporation (the "By-laws") from and after the Effective Time until thereafter changed or amended as provided therein or in accordance with applicable law.

(c) The individuals identified on Exhibit C hereto under the heading "Directors" shall, from and after the Effective Time, be the directors of the Surviving Corporation until their successors have been duly elected or appointed and qualified or

until their earlier death, resignation or removal in accordance with the Certificate of Incorporation and By-laws. The individuals identified on Exhibit C hereto under the heading "Officers" shall, from and after the Effective Time, be the officers of the Surviving Corporation until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Certificate of Incorporation and By-laws.

Section 2.4 Effects of the Merger. The Merger shall have the effects set forth in Section 259 of the DGCL. Without limiting the generality of the foregoing, at the Effective Time, except as otherwise provided herein, all of the property, rights, privileges, powers and franchises of the Company and Acquisition Corp. shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Acquisition Corp. shall become the debts, liabilities and duties of the Surviving Corporation. The Company acknowledges that, upon the effectiveness of the Merger, Parent shall have the absolute and unqualified right to deal with the assets and business of the Surviving Corporation as its own property without limitation on the disposition or use of such assets or the conduct of such business.

Section 2.5 Closing. The consummation of the transactions contemplated by this Agreement, including the Merger (the "Closing"), shall take place: (a) at the offices of Greenberg & Kahr, 230 Park Avenue, Suite 430, New York, New York at 10:00 a.m. local time on the date on which all of the conditions to the Closing set forth in Article VIII hereof shall be fulfilled or waived in accordance with this Agreement (other than conditions that can be satisfied only at the Closing, but subject to the fulfillment or waiver of those conditions at the Closing); or (b) at such other place, time and date as the Company and Parent may agree in writing (the "Closing Date").

ARTICLE III
MERGER CONSIDERATION; CONVERSION OF SECURITIES

Section 3.1 Manner and Basis of Converting Capital Stock. At the Effective Time, by virtue of the Merger and without any action on the part of the Company, Parent or Acquisition Corp. or the holders of any outstanding shares of capital stock or other securities of the Company, Parent or Acquisition Corp.:

(a) Acquisition Corp. Stock. Each share of common stock, par value $0.00001 per share, of Acquisition Corp. issued and outstanding immediately prior to the Effective Time shall be converted into and become one fully paid and nonassessable share of capital stock, par value $0.00001 per share, of the Surviving Corporation, such that Parent shall be the holder of all of the issued and outstanding shares of capital stock of the Surviving Corporation following the Merger.

(b) Company Common Stock. Except as provided in Section 3.1(c) and Section 3.2(d) hereof, each share of Company Common Stock issued and outstanding immediately prior to the Effective Time shall be converted into the right to receive one (1) share of Parent Common Stock.

(c) Treasury Stock. Notwithstanding any provision of this Agreement to the contrary, each share of Company Capital Stock held in the treasury of the Company and each share of Company Capital Stock, if any, owned by Parent or any direct or indirect wholly-owned subsidiary of Parent immediately prior to the Effective Time shall be canceled in the Merger and shall not be converted into the right to receive any shares of capital stock or other securities of Parent.

(d) No Fractional Shares. No fractional shares of Parent Common Stock shall be issued in, or as a result of, the Merger. Any fractional share of Parent Common Stock that a holder of record of Company Capital Stock would otherwise be entitled to receive as a result of the Merger shall be aggregated. If a fractional share of Parent Common Stock results from such aggregation, the number of shares required to be issued to such record holder shall be rounded up to the nearest whole number of shares of Parent Common Stock.

Section 3.2 Surrender and Exchange of Certificates.

(a) Letter of Transmittal. Promptly after the Effective Time, Parent shall mail, or cause to be mailed, to each record holder of certificate(s) formerly representing ownership of Company Capital Stock that was converted into the right to receive Parent Common Stock pursuant to Section 3.1 hereof (i) a letter of transmittal ("Letter of Transmittal") for delivery of such certificate(s) to Parent and (ii) instruction for use in effecting the surrender of certificate(s), in each case in form and substance mutually agreeable to the Company and Parent. Delivery shall be effected, and risk of loss and title to the Parent Common Stock shall pass, only upon delivery to the Parent (or a duly authorized agent of Parent) of certificate(s) formerly representing ownership of Company Capital Stock (or an affidavit of lost certificate and indemnification or surety bond) and a properly completed and duly executed Letter of Transmittal, as described in Section 3.2(b) hereof. Notwithstanding the foregoing, Parent shall not be required to mail, or cause to be mailed, a Letter of Transmittal to any record holder of certificate(s) formerly representing ownership of

Company Capital Stock if such holder has previously agreed or consented to the exchange of certificates that are held in custody by the Company for the benefit of such holder.

(b) Exchange Procedures. Parent shall issue to each former record holder of Company Capital Stock, upon delivery to Parent (or a duly authorized agent of Parent) of (i) certificate(s) formerly representing ownership of Company Capital Stock endorsed in blank or accompanied by duly executed stock powers (or an affidavit of lost certificate and indemnification in form and substance reasonably acceptable to Parent stating that, among other things, the former record holder has lost his or her certificate(s) or that such certificate(s) have been destroyed) and (ii) a properly completed and duly executed Letter of Transmittal in form and substance reasonably satisfactory to Parent, a certificate or certificates registered in the name of such former record holder representing the number of shares of Parent Common Stock that such former record holder is entitled to receive in accordance with Section 3.1 hereof. Subject to Section 3.2(d) hereof, until the certificate(s) (or affidavit) is delivered together with the Letter of Transmittal in the manner contemplated by this Section 3.2(b), each certificate (or affidavit) previously representing ownership of Company Capital Stock shall be deemed at and after the Effective Time to represent only the right to receive Parent Common Stock and the former record holders thereof shall cease to have any other rights with respect to his or her Company Capital Stock.

(c) Termination of Exchange Process. Any Parent Common Stock that remains unclaimed by a former record holder of Company Capital Stock at the first anniversary of the Effective Time may be deemed "abandoned property" subject to applicable abandoned property, escheat and other similar laws in the State in which the former record holder resides. None of the Company, Parent, Acquisition Corp. or the Surviving Corporation shall be liable to any person in respect of any Parent Company Stock delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

(d) Dissenting Shares. Notwithstanding any provision of this Agreement to the contrary, shares of Company Capital Stock issued and outstanding immediately prior to the Effective Time and held by a Stockholder who has not voted in favor of the Merger or consented thereto in writing and who has demanded appraisal for such shares of Company Capital Stock in accordance with Section 262 of the DGCL ("Dissenting Shares") shall not be entitled to vote for any purpose or receive dividends, shall not be converted into the right to receive Parent Common Stock in accordance with Section 3.1 hereof, and shall only be entitled to receive such consideration as shall be determined pursuant to Section 262 of the DGCL; provided, however, that if, after the Effective Time, such Stockholder fails to perfect or withdraws or loses his or her right to appraisal or otherwise fails to establish the right to be paid the value of such Stockholder's shares of Company Capital Stock under the DGCL, such shares of Company Capital Stock shall be treated as if they had converted as of the Effective Time into the right to receive Parent Common Stock in accordance with Section 3.1 hereof, and such shares of Company Capital Stock shall no longer be Dissenting Shares. All negotiations with respect to payment for Dissenting Shares shall be handled jointly by Parent and the Company prior to the Closing and exclusively by Parent thereafter.

(e) Stock Transfer Books. At the Effective Time, the stock transfer books of the Company will be closed and there will be no further registration of transfers of shares of Company Capital Stock thereafter on the records of the Company. If, after the Effective Time, certificates formerly representing Company Capital Stock are presented to the Surviving Corporation, these certificates shall be canceled and exchanged for the number of shares of Parent Common Stock to which the former record holder may be entitled pursuant to Section 3.1 hereof.

Section 3.3 Options, Warrants.

(a) Common Stock Options. The Company has issued and

outstanding warrants and options to purchase shares of Company Common Stock (collectively, the "Common Stock Options"). At the Effective Time, by virtue of the Merger and without any action on the part of the Company, Parent or Acquisition Corp. or the holders of any outstanding Common Stock Options, the right to acquire a share of Company Common Stock under each Common Stock Option shall be converted into the right to acquire one (1) share of Parent Common Stock at an exercise price equal to the exercise price stated in the Common Stock Option, subject in all respects to all other terms and conditions of the Common Stock Option. Except for the change in security underlying the Common Stock Options from Company Common Stock to Parent Common Stock, it is the intent of the parties hereto that the Common Stock Options shall continue after the Effective Time, and that the terms and conditions of the Common Stock Options shall otherwise remain unchanged.

(b) Issuance of Replacement Securities. In order to effect the foregoing transactions referenced in this Section 3.3, on the termination of the Private Placement, the Common Stock Options shall be terminated and the Parent shall issue new forms of options or warrants, as applicable, to purchase Parent Common Stock consistent with the adjustments and changes set forth in this Section 3.3.

(c) No Fractional Shares. Notwithstanding anything to the contrary in this Section 3.3, no fractional shares of the Parent Common Stock shall be issued in, or as a result of, the Merger. Any fractional share of the Parent Common Stock that a Person would otherwise be entitled to receive as a result of the transactions referenced in this Section 3.3 shall be rounded up to the nearest whole number of shares of Parent Common Stock.

Section 3.4 Parent Common Stock. Parent shall reserve a sufficient number of shares of Parent Common Stock to complete the conversion and exchange of Company Capital Stock into Parent Common Stock contemplated by Sections 3.1 and 3.2 hereof and the issuance of any Parent Common Stock in accordance with Section 3.3 hereof and pursuant to warrants sold in the Private Placement including warrants issuable to the Placement Agent. Parent covenants and agrees that immediately prior to the Effective Time there will be no more than 4,500,000 shares of Parent Common Stock issued and outstanding, not including the shares of Parent Common Stock to be issued in the Private Placement, and that no other common or preferred stock or equity securities of the Parent, or any options, warrants, rights or other agreements or instruments convertible, exchangeable or exercisable into common or preferred stock or equity securities of the Parent, shall be issued or outstanding at the Effective Time.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to Parent as follows:

Section 4.1 Organization. The Company (i) is duly organized, validly existing and in good standing (or its equivalent) under the laws of the State of Delaware, (ii) has all licenses, permits, authorizations and other Consents necessary to own, lease and operate its properties and assets and to carry on its business as it is now being conducted and (iii) has all requisite corporate or other applicable power and authority to own, lease and operate its properties and assets and to carry on its business as it is now being conducted and presently proposed to be conducted, except where such failure would not have, or be reasonably likely to have, a Company Material Adverse Effect. The Company is duly qualified or authorized to conduct business and is in good standing (or its equivalent) as a foreign corporation or other entity in all jurisdictions in which the ownership or use of its assets or nature of the business conducted by it makes such qualification or authorization necessary, except where the failure to be so duly qualified, authorized and in good standing would not have a Company Material Adverse Effect. The Company has no subsidiaries.

Section 4.2 Authorization; Validity of Agreement. The Company has all requisite corporate power and authority to execute and deliver this Agreement

and to consummate the transactions contemplated hereby. The execution, delivery and performance by the Company of this Agreement and the consummation of the transactions contemplated hereby, have been duly authorized by the Board of Directors of the Company and no other action (except the approval of the Stockholders solely with respect to consummation of the Merger) on the part of the Company or any of its Stockholders or subsidiaries is necessary to authorize the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Company (and assuming due and valid authorization, execution and delivery hereof by Parent and Acquisition Corp.) is a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as such enforcement is limited by bankruptcy, insolvency and other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity.

Section 4.3 Capitalization. As of the date hereof, the authorized capital stock of the Company consists of 42,000,000 shares of Company Common Stock and 7,000 shares of Company Preferred Stock. As of the date hereof, there are 19,093,701 shares of Company Common Stock and no shares of Company Preferred Stock issued and outstanding. All the outstanding shares of Company Capital Stock are duly authorized, validly issued, fully paid and non-assessable. There are issued and outstanding Company Stock Options to purchase 2,922,651 shares of Company Common Stock.

Section 4.4 Consents and Approvals; No Violations. Except for (a) approval of the Merger by the Stockholders and (b) filing of the certificate of merger with the Secretary of State of the State of Delaware, neither the execution, delivery or performance of this Agreement by the Company nor the consummation of the transactions contemplated hereby will (i) violate any provision of its certificate of incorporation or by-laws; (ii) violate, conflict with or result in a breach of any provision of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, require the consent of or result in the creation of any encumbrance upon any of the properties of the Company or any of its subsidiaries under, any material note, bond, mortgage, indenture, deed of trust, license, franchise, permit, lease, contract, agreement or other instrument (collectively, "Contract") to which the Company or any its subsidiaries or any of their respective properties may be bound; (iii) require any Consent, approval or authorization of, or notice to, or declaration, filing or registration with, any governmental entity by or with respect to the Company or any of its subsidiaries; or (iv) violate any order, writ, judgment, injunction, decree, law, statute, rule or regulation applicable to the Company or any of its subsidiaries or any of their respective properties or assets.

Section 4.5 Financial Statements. The Company has delivered or made available as of the date hereof or shall, prior to the Closing Date, deliver or make available to Parent the balance sheet (the "Balance Sheet") of the Company for the fiscal year ended December 31, 2004 and the related consolidated and consolidating statements of income, stockholders' equity and cash flows of the Company for the fiscal year ended December 31, 2004 (the "Balance Sheet Date"). The foregoing financial statements (including any notes thereto) (i) have been prepared based upon the books and records of the Company, (ii) have been prepared in accordance with GAAP

(except as otherwise noted therein), and (iii) present fairly, in all material respects, the financial position, results of operations and cash flows of the Company as at their respective dates and for the periods then ended. To the knowledge of the Company, there is no existing fact that has not been disclosed to Parent that has had or could reasonably be expected to have a Company Material Adverse Effect.

Section 4.6 No Undisclosed Liabilities. Except (a) for Liabilities described in the Memorandum or reflected on the face of the Balance Sheet and (b) Liabilities of the same type, magnitude and scope as those reflected on the Balance Sheet which have arisen since the date of the Balance Sheet in the ordinary course of business, and which would not, individually or in the aggregate, result in a Company Material Adverse Effect, the Company does not have any Liability.

Section 4.7 Litigation. There is no Action pending or, to the knowledge of the Company, threatened, involving the Company or its subsidiaries or affecting any of the officers, directors or employees of the Company or its subsidiaries with respect to the Company's or any subsidiary's business by or before any governmental entity or by any third party and neither the Company nor any of its subsidiaries have received notice that any such Action is threatened. Neither the Company nor any of its subsidiaries is in default under any judgment, order or decree of any governmental entity applicable to its business.

Section 4.8 No Default; Compliance with Applicable Laws. The Company is not in default or violation of any material term, condition or provision of (i) its certificate of incorporation or by-laws or (ii) any law applicable to the Company or its property and assets, and the Company has not received notice of any violation of or Liability under any of the foregoing (whether material or not).

Section 4.9 Broker's and Finder's Fees. Except for the Placement Agent and finders as disclosed in the Memorandum, whose fees and expenses will be paid from the gross proceeds raised in the Private Placement, no Person has, or as a result of the transactions contemplated or described herein will have, any right or valid claim against the Company, Parent, Acquisition Corp. or any Stockholder for any commission, fee or other compensation as a finder or broker, or in any similar capacity.

Section 4.10 Assets and Contracts. Except for this Agreement and except as described in the Memorandum, the Company is not a party to any Contract not made in the ordinary course of business that is material to the Company. The Company is not a party to any contract (a) with a labor union, (b) for the purchase of fixed assets or for the purchase of materials, supplies or equipment in excess of normal operating requirements, (c) for the employment of any officer, individual employee or other Person on a full-time basis, (d) with respect to bonus, pension, profit sharing, retirement, stock purchase, deferred compensation, medical, hospitalization or life insurance or similar plan, contract or understanding any or all of the employees of the Company or any other Person, (e) relating to or evidencing Indebtedness for Borrowed Money or subjecting any asset or property of the Company to any Lien or evidencing any Indebtedness, (f) guaranteeing any Indebtedness, (g) under which the Company is lessee of or holds or operates any property, real or personal, owned by any other Person under which payments to such Person exceed $100,000 per year and with an unexpired term (including any period covered by an option to renew exercisable by any other party) of more than 60 days, (h) under which the

Company is lessor or permits any Person to hold or operate any property, real or personal, owned or controlled by the Company, (i) granting any preemptive right, right of first refusal or similar right to any Person, (j) with any Affiliate of the Company or any present or former officer, director or Stockholder of the Company, (k) obligating the Company to pay any royalty or similar charge for the use or exploitation of any tangible or intangible property, (1) containing a covenant not to compete or other restriction on the Company's ability to conduct a business or engage in any other activity, (m) with respect to any distributor, dealer, manufacturer's representative, sales agency, franchise or advertising contract or commitment, (n) regarding registration of securities under the Securities Act, (o) characterized as a collective bargaining agreement, or (p) with any Person continuing for a period of more than three months from the Closing Date which involves an expenditure or receipt by the Company in excess of $100,000. The Company has made available to Parent and Acquisition Corp. true and complete copies of all Contracts and other documents requested by Parent or Acquisition Corp.

Section 4.11 Tax Returns and Audits. All required federal, state and local Tax Returns of the Company have been accurately prepared and duly and timely filed, and all federal, state and local Taxes required to be paid with respect to the periods covered by such returns have been paid. The Company is not and has not been delinquent in the payment of any Tax. The Company has not had a Tax deficiency proposed or assessed against it and has not executed a waiver of any statute of limitations on the assessment or collection of any Tax. None of the Company's federal income Tax Returns nor any state or local income

or franchise Tax Returns has been audited by governmental authorities. The reserves for Taxes reflected on the Balance Sheet are and will be sufficient for the payment of all unpaid Taxes payable by the Company as of the Balance Sheet Date. Since the Balance Sheet Date, the Company has made adequate provisions on its books of account for all Taxes with respect to its business, properties and operations for such period. The Company has withheld or collected from each payment made to each of its employees the amount of all Taxes (including, but not limited to, federal, state and local income taxes, Federal Insurance Contribution Act taxes and Federal Unemployment Tax Act taxes) required to be withheld or collected therefrom, and has paid the same to the proper Tax receiving officers or authorized depositaries. There are no federal, state, local or foreign audits, actions, suits, proceedings, investigations, claims or administrative proceedings relating to Taxes or any Tax Returns of the Company now pending, and the Company has not received any notice of any proposed audits, investigations, claims or administrative proceedings relating to Taxes or any Tax Returns. The Company is not obligated to make a payment, nor is it a party to any agreement that under certain circumstances could obligate it to make a payment, that would not be deductible under Section 280G of the Code. The Company has not agreed nor is required to make any adjustments under Section 481(a) of the Code (or any similar provision of state, local and foreign law) by reason of a change in accounting method or otherwise for any Tax period for which the applicable statute of limitations has not yet expired. The Company is not a party to, is not bound by and does not have any obligation under, any Tax sharing agreement, Tax indemnification agreement or similar contract or arrangement, whether written or unwritten (collectively, "Tax Sharing Agreements"), nor does it have any potential liability or obligation to any Person as a result of, or pursuant to, any Tax Sharing Agreements.

Section 4.12 Patents and Other Intangible Assets.

(a) Except as set forth in the Memorandum, the Company (i) owns or has the right to use, free and clear of all Liens, all patents, trademarks, service marks, trade names, copyrights, licenses and rights with respect to the foregoing used in or necessary for the conduct of its business as now conducted or proposed to be conducted without infringing upon or otherwise acting adversely to the right or claimed right of any Person under or with respect to any of the foregoing and (ii) is not obligated or under any obligation to make any payments by way of royalties, fees or otherwise to any owner or licensor of, or other claimant to, any patent, trademark, service mark, trade name, copyright or other intangible asset, with respect to the use thereof or in connection with the conduct of its business or otherwise.

(b) To the best knowledge of the Company, the Company owns and has the unrestricted right to use all trade secrets, if any, including know-how, negative know-how, formulas, patterns, programs, devices, methods, techniques, inventions, designs, processes, computer programs and technical data and all information that derives independent economic value, actual or potential, from not being generally known or known by competitors (collectively, "Intellectual Property") required for or incident to the development, operation and sale of all products and services sold by the Company, free and clear of any right, Lien or claim of others. All Intellectual Property can and will be transferred by the Company to the Surviving Corporation as a result of the Merger and without the consent of any Person other than the Company.

Section 4.13 Employee Benefit Plans; ERISA(a) .

(a) All "employee benefit plans" (within the meaning of Section 3(3) of the ERISA) of the Company and other employee benefit or fringe benefit arrangements, practices, contracts, policies or programs of every type, other than programs merely involving the regular payment of wages, commissions, or bonuses established, maintained or contributed to by the Company, whether written or unwritten and whether or not funded, are in material compliance with the applicable requirements of ERISA, the Code and any other applicable state, federal or foreign law.

(b) There are no pending claims or lawsuits that have been asserted or instituted against any Employee Benefit Plan, the assets of any of the trusts or funds under the Employee Benefit Plans, the plan

sponsor or the plan administrator of any of the Employee Benefit Plans or against any fiduciary of an Employee Benefit Plan with respect to the operation of such plan, nor does the Company have any knowledge of any incident, transaction, occurrence or circumstance which might reasonably be expected to form the basis of any such claim or lawsuit.

(c) There is no pending or, to the knowledge of the Company, contemplated investigation, or pending or possible enforcement action by the Pension Benefit Guaranty Corporation, the Department of Labor, the Internal Revenue Service or any other government agency with respect to any Employee Benefit Plan and the Company has no knowledge of any incident, transaction, occurrence or circumstance which might reasonably be expected to trigger such an investigation or enforcement action.

(d) No actual or, to the knowledge of the Company, contingent Liability exists with respect to the funding of any Employee Benefit Plan or for any other expense or obligation of any Employee Benefit Plan, except as disclosed on the Balance Sheet, and no contingent Liability exists under ERISA with respect to any "multi-employer plan," as defined in Section 3(37) or Section 4001(a)(3) of ERISA.

(e) No events have occurred or are reasonably expected to occur with respect to any Employee Benefit Plan that would cause a material change in the costs of providing benefits under such Employee Benefit Plan or would cause a material change in the cost of providing such Employee Benefit Plan.

Section 4.14 Title to Property and Encumbrances. The Company has good and valid title to all properties and assets used in the conduct of its business (except for property held under valid and subsisting leases which are in full force and effect and which are not in default) free of all Liens except Permitted Liens and such ordinary and customary imperfections of title, restrictions and encumbrances as do not, individually or in the aggregate constitute a Company Material Adverse Effect.

Section 4.15 Condition of Properties. All facilities, machinery, equipment, fixtures and other properties owned, leased or used by the Company are in operating condition, subject to ordinary wear and tear, and are adequate and sufficient for the Company's existing business.

Section 4.16 Insurance Coverage. There is in full force and effect one or more policies of insurance issued by insurers of recognized responsibility insuring the Company and its properties, products and business against such losses and risks, and in such amounts, as are customary for corporations of established reputation engaged in the same or similar business and similarly situated. The Company has not been refused any insurance coverage sought or applied for, and the Company has no reason to believe that it will be unable to renew its existing insurance coverage as and when the same shall expire upon terms at least as favorable to those currently in effect, other than possible increases in premiums that do not result from any act or omission of the Company. No suit, proceeding or action or, to the best current actual knowledge of the Company, threat of suit, proceeding or action has been asserted or made against the Company due to alleged bodily injury, disease, medical condition, death or property damage arising out of the function or malfunction of a product, procedure or service designed, manufactured, sold or distributed by the Company.

Section 4.17 Interested Party Transactions. Except as disclosed in the Memorandum, no officer, director or stockholder of the Company or any Affiliate of any such Person or the Company has or has had, either directly or indirectly, (a) an interest in any Person that (i) furnishes or sells services or products that are furnished or sold or are proposed to be furnished or sold by the Company or (ii) purchases from or sells or furnishes to the Company any goods or services, or (b) a beneficial interest in any Contract to which the Company is a party or by which it may be bound or affected.

Section 4.18 Environmental Matters.

(a) To the knowledge of the Company, the Company has never

generated, used, handled, treated, released, stored or disposed of any Hazardous Materials on any real property on which it now has or previously had any leasehold or ownership interest, except in compliance with all applicable Environmental Laws.

(b) To the knowledge of the Company, the historical and present operations of the business of the Company are in compliance with all applicable Environmental Laws, except where any non-compliance has not had and would not reasonably be expected to have a Company Material Adverse Effect.

(c) There are no material pending or, to the knowledge of the Company, threatened, demands, claims, information requests or notices of noncompliance or violation against or to the Company relating to any Environmental Law; and, to the knowledge of the Company, there are no conditions or occurrences on any of the real property used by the Company in connection with its business that would reasonably be expected to lead to any such demands, claims or notices against or to the Company, except such as have not had, and would not reasonably be expected to have, a Company Material Adverse Effect.

(d) To the knowledge of the Company, (i) the Company has not, sent or disposed of, otherwise had taken or transported, arranged for the taking or disposal of (on behalf of itself, a customer or any other party) or in any other manner participated or been involved in the taking of or disposal or release of a Hazardous Material to or at a site that is contaminated by any Hazardous Material or that, pursuant to any Environmental Law, (A) has been placed on the "National Priorities List", the "CERCLIS" list, or any similar state or federal list, or (B) is subject to or the source of a claim, an administrative order or other request to take "removal", "remedial", "corrective" or any other "response" action, as defined in any Environmental Law, or to pay for the costs of any such action at the site; (ii) the Company is not involved in (and has no basis to reasonably expect to be involved in) any suit or proceeding and has not received (and has no basis to reasonably expect to receive) any notice, request for information or other communication from any governmental authority or other third party with respect to a release or threatened release of any Hazardous Material or a violation or alleged violation of any Environmental Law, and has not received (and has no basis to reasonably expect to receive) notice of any claims from any Person relating to property damage, natural resource damage or to personal injuries from exposure to any Hazardous Material; and (iii) the Company has timely filed every report required to be filed, acquired all necessary certificates, approvals and permits, and generated and maintained all required data, documentation and records under all Environmental Laws, in all such instances except where the failure to do so would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

Section 4.19 Disclosure. There is no fact relating to the Company that the Company has not disclosed to Parent and Acquisition Corp. in writing that has had or is currently having a Company Material Adverse Effect. No representation or warranty by the Company herein and no information disclosed in the Company Disclosure Schedule or exhibits hereto by the Company contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein not misleading.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF PARENT AND ACQUISITION CORP.

Parent and Acquisition Corp. hereby represent and warrant to the Company (and the Placement Agent, as a third party beneficiary in connection with the Private Placement) as follows:

Section 5.1 Organization. Each of Parent and Acquisition Corp. (i) is duly organized, validly existing and in good standing under the laws of its

State of incorporation or organization, (ii) has all licenses, permits, authorizations and other Consents necessary to own, lease and operate its properties and assets and to carry on its business as it is now being conducted and (iii) has all requisite corporate or other applicable power and authority to own, lease and operate its properties and assets and to carry on its business as it is now being conducted and presently proposed to be conducted, in each case except where such failures would not have, or be reasonably likely to have, a Parent Material Adverse Effect. Each of Parent and Acquisition Corp. is duly qualified or authorized to conduct business and is in good standing as a foreign corporation or other entity in all jurisdictions in which the ownership or use of its assets or nature of the business conducted by it makes such qualification or authorization necessary, except where the failure to be so duly qualified, authorized and in good standing would not have an Parent Material Adverse Effect.

Section 5.2 Authorization; Validity of Agreement. Each of Parent and Acquisition Corp. has all requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by each of Parent and Acquisition Corp. of this Agreement and all other agreements and instruments to be executed pursuant to this Agreement, and the consummation of the transactions contemplated hereby, have been duly authorized by the Board of Directors of each of Parent and Acquisition Corp. and the stockholders of Acquisition Corp., and no other action on the part of either of Parent and Acquisition Corp. is necessary to authorize the execution and delivery of this Agreement and the consummation by either of Parent or Acquisition Corp. of the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Parent and Acquisition Corp. (and assuming due and valid authorization, execution and delivery hereof by the Company) is a valid and binding obligation of each of Parent and Acquisition Corp., enforceable against each of them in accordance with its terms, except as such enforcement is limited by bankruptcy, insolvency and other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity.

Section 5.3 Consents and Approvals; No Violations. Except for filing of the certificate of merger with the Secretary of State of the State of Delaware, neither the execution, delivery or performance of this Agreement by either of Parent and Acquisition Corp. nor the consummation of the transactions contemplated hereby will (i) violate any provision of the certificate of incorporation or by-laws of Parent or Acquisition Corp.; (ii) violate, conflict with or result in a breach of any provision of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, require the consent of or result in the creation of any Lien upon any of the properties of Parent or Acquisition Corp. under, any Contract to which Parent or Acquisition Corp. or any of their properties may be bound; (iii) require any Consent, approval or authorization of, or notice to, or declaration, filing or registration with, any governmental entity by or with respect to Parent or any subsidiary of Parent, or (iv) violate any law applicable to any of Parent or Acquisition Corp. or any of their respective properties or assets.

Section 5.4 Litigation. There is no Action pending or, to the knowledge of the Parent, threatened, involving Parent and Acquisition Corp. or any subsidiary of Parent or affecting the officers, directors or employees of Parent and Acquisition Corp. or any subsidiary of Parent with respect to Parent's and Acquisition Corp.'s, or any of Parent's subsidiaries, business by or before any governmental entity or by any third party and neither Parent or Acquisition Corp. nor any subsidiary of Parent has received notice that any such Action is threatened. Neither Parent or Acquisition Corp. nor any subsidiary of Parent is in default under any judgment, order or decree of any governmental entity applicable to its business.

Section 5.5 No Default; Compliance with Applicable Laws. Neither Parent nor any of Parent's subsidiaries is in default or violation of any material term, condition or provision of (i) their respective certificate of incorporation, by-laws or similar organizational documents or (ii) any law applicable to Parent or any of Parent's subsidiaries or its property and assets and neither Parent nor any of Parent's subsidiaries has received notice of any violation of or Liability under any of the foregoing (whether material or not).

Section 5.6 Broker's and Finder's Fees; Broker/Dealer Ownership. No

person, firm, corporation or other entity is entitled by reason of any act or omission of Parent or Acquisition Corp. to any broker's or finder's fees, commission or other similar compensation with respect to the execution and delivery of this Agreement or with respect to the consummation of the transactions contemplated hereby. Except for placement agent warrants to purchase units issued in connection with the Private Placement, no broker/dealer offering or selling shares in the Private Placement, nor any director, officer or Affiliate of any such broker/dealer, will own, either directly or indirectly through subsidiaries or Affiliates, shares of Parent Common Stock upon the termination of the Private Placement.

Section 5.7 Capitalization of Parent. The authorized capital stock of Parent consists of (a) 100,000,000 shares of Parent Common Stock, of which not more than 4,500,000 shares will be, following the Effective Time, issued and outstanding without taking into consideration the issuance of Parent Common Stock in the Merger and the Private Placement, and (b) no shares of preferred stock. Parent has no outstanding options, rights or commitments to issue shares of Parent Common Stock or any capital stock or other securities of Parent or Acquisition Corp., and there are no outstanding securities convertible or exercisable into or exchangeable for shares of Parent Common Stock or any capital stock or other securities of Parent or Acquisition Corp. There is no voting trust, agreement or arrangement among any of the beneficial holders of Parent Common Stock affecting the nomination or election of directors or the exercise of the voting rights of Parent Common Stock. All outstanding shares of the capital stock of Parent are validly issued and outstanding, fully paid and nonassessable, and none of such shares have been issued in violation of the preemptive rights of any person.

Section 5.8 Acquisition Corp. Acquisition Corp. is a Delaware corporation and a wholly-owned subsidiary of Parent that was formed specifically for the purpose of the Merger and that has not conducted any business or acquired any property, and will not conduct any business or acquire any property prior to the Closing Date, except in preparation for and otherwise in connection with the transactions contemplated by this Agreement. Parent owns all of the issued and outstanding capital stock of Acquisition Corp. free and clear of all Liens, and Acquisition Corp. has no outstanding options, warrants or rights to purchase capital stock or other securities of the Acquisition Corp., other than the capital stock of Acquisition Corp. owned by Parent. Except for Acquisition Corp., the Parent has no subsidiaries.

Section 5.9 Validity of Shares. The shares of Parent Common Stock to be issued in accordance with Article III hereof and the shares of Parent Common Stock to be issued at one or more closings in connection with the Private Placement, when issued and delivered in accordance with the terms hereof, shall be duly and validly issued, fully paid and nonassessable. Based in part on the representations of investors contained in the subscription agreement attached to the Memorandum and assuming the accuracy thereof, the issuance of the Parent Common Stock in connection with the Private Placement will be exempt from the registration and prospectus delivery requirements of the Securities Act and from the qualification or registration requirements of any applicable state blue sky or securities laws.

Section 5.10 SEC Reporting and Compliance.

(a) Parent filed a registration statement on Form SB-2 under the Securities Act which became effective on March 1, 2005. Since that date, Parent has filed with the Commission all registration statements, proxy statements, information statements and reports required to be filed pursuant to the Exchange Act. Parent has not filed with the Commission a certificate on Form 15 pursuant to Rule 12h-3 of the Exchange Act.

(b) Parent has delivered to the Company true and complete copies of the registration statements, information statements and other reports (collectively, the "Parent SEC Documents") filed by the Parent with the Commission. None of the Parent SEC Documents, as of their respective dates, contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements contained therein not misleading.

(c) Parent has not filed, and nothing has occurred with respect to which Parent would be required to file, any report on Form 8-K since December 31, 2004. Prior to and until the Closing, Parent will provide to the Company copies of any and all amendments or supplements to the Parent SEC Documents filed with the Commission since December 31, 2004 and all subsequent registration statements and reports filed by Parent subsequent to the filing of the Parent SEC Documents with the Commission and any and all subsequent information statements, proxy statements, reports or notices filed by the Parent with the Commission or delivered to the stockholders of Parent.

(d) Parent is not an "investment company" within the meaning of Section 3 of the Investment Company Act.

(e) Shares of Parent Common Stock are quoted on the Over-the-Counter (OTC) Bulletin Board under the symbol CHZN.OB and Parent is in compliance in all material respects with all rules and regulations of the OTC Bulletin Board applicable to it and the Parent Common Stock.

(f) Between the date hereof and the Closing Date, Parent shall continue to satisfy the filing requirements of the Exchange Act and all other requirements of applicable securities laws and the OTC Bulletin Board.

(g) To the best knowledge of the Parent, the Parent has complied with the Securities Act, Exchange Act and all other applicable federal and state securities laws.

Section 5.11 Financial Statements. The balance sheets, and statements of income, stockholders' equity and cash flows contained in the Parent SEC Documents (the "Parent Financial Statements") (i) have been prepared in accordance with GAAP, (ii) are in accordance with the books and records of the Parent, and (iii) present fairly in all material respects the financial condition of the Parent at the dates therein specified and the results of its operations and changes in financial position for the periods therein specified.

Section 5.12 No General Solicitation. In issuing Parent Common Stock in the Merger hereunder, neither Parent nor anyone acting on its behalf has offered to sell Parent Common Stock by any form of general solicitation or advertising.

Section 5.13 Absence of Undisclosed Liabilities. Neither Parent nor Acquisition Corp. has any Liability arising out of any transaction entered into at or prior to the Closing, except (a) as disclosed in the Parent SEC Documents, (b) to the extent set forth on or reserved against in the balance sheet of Parent as of December 31, 2004 (the "Parent Balance Sheet") or the notes to the Parent Financial Statements, (c) current Liabilities incurred and obligations under agreements entered into in the usual and ordinary course of business since December 31, 2004 (the "Parent Balance Sheet Date"), none of which, individually or in the aggregate, constitutes a Parent Material Adverse Effect and (d) by the specific terms of any written agreement, document or arrangement attached as an exhibit to the Parent SEC Documents.

Section 5.14 Changes. Since the Parent Balance Sheet Date, except as disclosed in the Parent SEC Documents, the Parent has not (a) incurred any debts, obligations or Liabilities, absolute, accrued or, to the Parent's knowledge, contingent, whether due or to become due, except for current Liabilities incurred in the usual and ordinary course of business, (b) discharged or satisfied any Liens other than those securing, or paid any obligation or Liability other than, current liabilities shown on the Parent Balance Sheet and current Liabilities incurred since the Parent Balance Sheet Date, in each case in the usual and ordinary course of business, (c) mortgaged, pledged or subjected to Lien any of its assets, tangible or intangible, other than in the usual and ordinary course of business, (d) sold, transferred or leased any of its assets, except in the usual and ordinary course of business, (e) cancelled or compromised any debt or claim, or waived or released any right of material value, (f) suffered any physical damage, destruction or loss (whether or not covered by insurance) that could reasonably be expected to have a Parent Material Adverse Effect, (g) entered into any transaction other than in the usual and ordinary course of business, (h) encountered any labor union

difficulties, (i) made or granted any wage or salary increase or made any increase in the amounts payable under any profit sharing, bonus, deferred compensation, severance pay, insurance, pension, retirement or other employee benefit plan, agreement or arrangement, other than in the ordinary course of business consistent with past practice, or entered into any employment agreement, (j) issued or sold any shares of capital stock, bonds, notes, debentures or other securities or granted any options (including employee stock options), warrants or other rights with respect thereto, (k) declared or paid any dividends

on or made any other distributions with respect to, or purchased or redeemed, any of its outstanding capital stock, (l) suffered or experienced any change in, or condition affecting, the financial condition of the Parent other than changes, events or conditions in the usual and ordinary course of its business, none of which (either by itself or in conjunction with all such other changes, events and conditions) could reasonably be expected to have a Parent Material Adverse Effect, (m) made any change in the accounting principles, methods or practices followed by it or depreciation or amortization policies or rates theretofore adopted, (n) made or permitted any amendment or termination of any material Contract, agreement or license to which it is a party, (o) suffered any material loss not reflected in the Parent Balance Sheet or its statement of income for the year ended on the Parent Balance Sheet Date, (p) paid, or made any accrual or arrangement for payment of, bonuses or special compensation of any kind or any severance or termination pay to any present or former officer, director, employee, stockholder or consultant, (q) made or agreed to make any charitable contributions or incurred any non-business expenses in excess of $1,000 in the aggregate, or (r) entered into any Contract, agreement or license, or otherwise obligated itself, to do any of the foregoing.

Section 5.15 Tax Returns and Audits. All required federal, state and local Tax Returns of the Parent have been accurately prepared in all material respects and duly and timely filed, and all federal, state and local Taxes required to be paid with respect to the periods covered by such returns have been paid to the extent that the same are material and have become due, except where the failure so to file or pay could not reasonably be expected to have a Parent Material Adverse Effect. The Parent is not and has not been delinquent in the payment of any Tax. The Parent has not had a Tax deficiency assessed against it. None of the Parent's federal income Tax Returns nor any state or local income or franchise Tax Returns has been audited by governmental authorities. The reserves for Taxes reflected on the Parent Balance Sheet are sufficient for the payment of all unpaid Taxes payable by the Parent with respect to the period ended on the Parent Balance Sheet Date. There are no federal, state, local or foreign audits, actions, suits, proceedings, investigations, claims or administrative proceedings relating to Taxes or any Tax Returns of the Parent now pending, and the Parent has not received any notice of any proposed audits, investigations, claims or administrative proceedings relating to Taxes or any Tax Returns.

Section 5.16 Employee Benefit Plans; ERISA.

(a) Except as disclosed in the Parent SEC Documents, there are no "employee benefit plans" (within the meaning of Section 3(3) of ERISA) nor any other employee benefit or fringe benefit arrangements, practices, contracts, policies or programs other than programs merely involving the regular payment of wages, commissions, or bonuses established, maintained or contributed to by the Parent. Any plans listed in the Parent SEC Documents are hereinafter referred to as the "Parent Employee Benefit Plans."

(b) Any current and prior material documents, including all amendments thereto, with respect to each Parent Employee Benefit Plan have been made available to the Company.

(c) All Parent Employee Benefit Plans are in material compliance with the applicable requirements of ERISA, the Code and any other applicable state, federal or foreign law.

(d) There are no pending, or to the knowledge of the Parent, threatened, claims or lawsuits that have been asserted or instituted against any Parent Employee Benefit Plan, the assets of any of the trusts or funds under the Parent Employee Benefit Plans, the plan sponsor or the plan administrator of any of the Parent Employee Benefit Plans or against any fiduciary of a Parent Employee Benefit Plan with respect to the operation of such plan.

(e) There is no pending, or to the knowledge of the Parent, threatened, investigation or pending or possible enforcement action by the Pension Benefit Guaranty Corporation, the Department of Labor, the Internal Revenue Service or any other government agency with respect to any Parent Employee Benefit Plan.

(f) No actual or, to the knowledge of Parent, contingent Liability exists with respect to the funding of any Parent Employee Benefit Plan or for any other expense or obligation of any Parent Employee Benefit Plan, except as disclosed on the Parent Financial Statements or the Parent SEC Documents, and to the knowledge of the Parent, no contingent Liability exists under ERISA with respect to any "multi-employer plan," as defined in Section 3(37) or Section 4001(a)(3) of ERISA.

Section 5.17 Interested Party Transactions. Except as disclosed in the Parent SEC Documents, no officer, director or stockholder of the Parent or any Affiliate of any such Person or the Parent has or has had, either directly or indirectly, (a) an interest in any Person that (i) furnishes or sells services or products that are furnished or sold or are proposed to be furnished or sold by the Parent or (ii) purchases from or sells or furnishes to the Parent any goods or services, or (b) a beneficial interest in any Contract to which the Parent is a party or by which it may be bound or affected.

Section 5.18 Questionable Payments. Neither the Parent, Acquisition Corp. nor to the knowledge of the Parent, any director, officer, agent, employee or other Person associated with or acting on behalf of the Parent or Acquisition Corp., has a used any corporate funds for (a) unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity, (b) made any direct or indirect unlawful payments to government officials or employees from corporate funds, (c) established or maintained any unlawful or unrecorded fund of corporate monies or other assets, (d) made any false or fictitious entries on the books of record of any such corporations, or (e) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment.

Section 5.19 Obligations to or by Stockholders. Except as disclosed in the Parent SEC Documents, the Parent has no Liability or obligation or commitment to any stockholder of Parent or any Affiliate or "associate" (as such term is defined in Rule 405 under the Securities Act) of any stockholder of Parent, nor does any stockholder of Parent or any such Affiliate or associate have any Liability, obligation or commitment to the Parent.

Section 5.20 Schedule of Assets and Contracts. Except as expressly set forth in this Agreement, the Parent Balance Sheet or the notes thereto, the Parent is not a party to any Contract not made in the ordinary course of business that is material to the Parent. Parent does not own any real property. Parent is not a party to any Contract (a) with any labor union, (b) for the purchase of fixed assets or for the purchase of materials, supplies or equipment in excess of

normal operating requirements, (c) for the employment of any officer, individual employee or other Person on a full-time basis or any contract with any Person for consulting services, (d) with respect to bonus, pension, profit sharing, retirement, stock purchase, stock option, deferred compensation, medical, hospitalization or life insurance or similar plan, contract or understanding with any or all of the employees of Parent or any other Person, (e) relating to or evidencing Indebtedness for Borrowed Money or subjecting any asset or

property of Parent to any Lien or evidencing any Indebtedness, (f) guaranteeing of any Indebtedness, (g) under which Parent is lessee of or holds or operates any property, real or personal, owned by any other Person, (h) under which Parent is lessor or permits any Person to hold or operate any property, real or personal, owned or controlled by Parent, (i) granting any preemptive right, right of first refusal or similar right to any Person, (j) with any Affiliate of Parent or any present or former officer, director or stockholder of Parent, (k) obligating Parent to pay any royalty or similar charge for the use or exploitation of any tangible or intangible property, (1) containing a covenant not to compete or other restriction on the parent's ability to conduct a business or engage in any other activity, (m) with respect to any distributor, dealer, manufacturer's representative, sales agency, franchise or advertising contract or commitment, (n) regarding the registration of securities under the Securities Act, (o) characterized as a collective bargaining agreement, or (p) with any Person continuing for a period of more than three months from the Closing Date that involves an expenditure or receipt by Parent in excess of $1,000. The Parent maintains no insurance policies and insurance coverage of any kind with respect to Parent, its business, premises, properties, assets, employees and agents. Parent has furnished to the Company true and complete copies of all agreements and other documents requested by the Company.

Section 5.21 Environmental Matters.

(a) The Parent has never generated, used, handled, treated, released, stored or disposed of any Hazardous Materials on any real property on which it now has or previously had any leasehold or ownership interest, except in compliance with all applicable Environmental Laws.

(b) The historical and present operations of the business of the Parent compliance with all applicable Environmental Laws, except where any non-compliance has not had and would not reasonably be expected to have a Parent Material Adverse Effect.

(c) (i) The Parent has not, sent or disposed of, otherwise had taken or transported, arranged for the taking or disposal of (on behalf of itself, a customer or any other party) or in any other manner participated or been involved in the taking of or disposal or release of a Hazardous Material to or at a site that is contaminated by any Hazardous Material or that, pursuant to any Environmental Law, (A) has been placed on the "National Priorities List", the "CERCLIS" list, or any similar state or federal list, or (B) is subject to or the source of a claim, an administrative order or other request to take "removal", "remedial", "corrective" or any other "response" action, as defined in any Environmental Law, or to pay for the costs of any such action at the site; (ii) the Parent is not involved in (and has no basis to reasonably expect to be involved in) any suit or proceeding and has not received (and has no basis to reasonably expect to receive) any notice, request for information or other communication from any governmental authority

or other third party with respect to a release or threatened release of any Hazardous Material or a violation or alleged violation of any Environmental Law, and has not received (and has no basis to reasonably expect to receive) notice of any claims from any Person relating to property damage, natural resource damage or to personal injuries from exposure to any Hazardous Material; and (iii) the Parent has timely filed every report required to be filed, acquired all necessary certificates, approvals and permits, and generated and maintained all required data, documentation and records under all Environmental Laws, in all such instances except where the failure to do so would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

Section 5.22 Employees. Other than pursuant to ordinary arrangements of employment compensation, Parent is not under any obligation or liability to any

officer, director, employee or Affiliate of Parent.

Section 5.23 Disclosure. There is no fact relating to Parent or Acquisition Corp. that Parent has not disclosed to the Company in writing that has had or is having a Parent Material Adverse Effect. No representation or warranty by Parent or Acquisition Corp. herein or exhibits hereto by Parent or Acquisition Corp. contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein misleading.

ARTICLE VI
CONDUCT OF BUSINESSES PENDING THE MERGER

Section 6.1 Conduct of Business by the Company Pending the Merger. Prior to the Effective Time, unless
Corp. shall otherwise agree in writing or as otherwise contemplated by this Agreement:

(i) the business of the Company shall be conducted only in the ordinary course consistent with the past practice;

(ii) except as disclosed in the Memorandum, the Company shall not (A) directly or indirectly redeem, purchase or otherwise acquire or agree to redeem, purchase or otherwise acquire any shares Company Capital Stock; (B) amend its certificate of incorporation or by-laws except to effectuate the transactions contemplated in this Agreement or the Memorandum; or (C) split, combine or reclassify the outstanding Company Capital Stock or declare, set aside or pay any dividend payable in cash, stock or property or make any distribution with respect to any such stock;

(iii) except as disclosed in the Memorandum, the Company shall not (A) issue any additional shares of, or options, warrants or rights of any kind to acquire any shares of, Company Capital Stock, except to issue shares of Company Capital Stock in connection with the exercise of Common Stock Options; (B) acquire or dispose of any fixed assets or acquire or dispose of any other substantial assets other than in the ordinary course of business; (C) incur additional Indebtedness or any other Liabilities or enter into any other transaction other than in the ordinary course of business; (D) enter into any Contract, agreement, commitment or arrangement with respect to any of the foregoing except this Agreement; or (E) except as contemplated by this Agreement, enter into any Contract, agreement, commitment or arrangement to dissolve, merge, consolidate or enter into any other material business combination;

(iv) the Company shall use its reasonable best efforts to preserve intact the business of the Company, to keep available the service of its present officers and key employees, and to preserve the good will of those having business relationships with it; and

(v) the Company will not enter into any new employment agreements with any of its officers or employees or grant any increases in the compensation or benefits of its officers and employees or amend any employee benefit plan or arrangement other than in the ordinary course of business and consistent with past practice.

Section 6.2 Conduct of Business by Parent and Acquisition Corp. Pending the Merger. Prior to the Effective Time, unless the Company shall otherwise agree in writing or as otherwise contemplated expressly permitted by this Agreement:

(i) the business of Parent and Acquisition Corp. shall be conducted only in the ordinary course consistent with past practice;

(ii) neither Parent nor Acquisition Corp. shall (A) directly or indirectly redeem, purchase or otherwise acquire or agree to redeem, purchase or otherwise acquire any shares of its capital stock; (B) amend its certificate of incorporation or by-laws; or (C) split, combine or reclassify its capital stock or declare, set aside or pay

any dividend payable in cash, stock or property or make any distribution with respect to such stock; and

(iii) neither Parent nor Acquisition Corp. shall (A) issue or agree to issue any additional shares of, or options, warrants or rights of any kind to acquire shares of, its capital stock; (B) acquire or dispose of any assets other than in the ordinary course of business; (C) incur additional Indebtedness or any other Liabilities or enter into any other transaction except in the ordinary course of business; (D) enter into any Contract, agreement, commitment or arrangement with respect to any of the foregoing except this Agreement, or (E) except as contemplated by this Agreement, enter into any Contract, agreement, commitment or arrangement to dissolve, merge; consolidate or enter into any other material business contract or enter into any negotiations in connection therewith.

(iv) Parent shall use its best efforts to preserve intact the business of Parent and Acquisition Corp., to keep available the service of its present officers and key employees, and to preserve the good will of those having business relationships with Parent and Acquisition Corp.;

(v) neither Parent nor Acquisition Corp. will, nor will they authorize any director or authorize or permit any officer or employee or any attorney, accountant or other representative retained by them to, make, solicit, encourage any inquiries with respect to, or engage in any negotiations concerning, any Acquisition Proposal (as defined below). Parent will promptly advise the Company in writing of any such inquiries or Acquisition Proposal (or requests for information) and the substance thereof. As used in this paragraph, "Acquisition Proposal" shall mean any proposal for a merger or other business combination involving the Parent or Acquisition Corp. or for the acquisition of a substantial equity interest in either of them or any material assets of either of them other than as contemplated by this Agreement. Parent will immediately cease and cause to be terminated any existing activities, discussions or negotiations with any Person conducted heretofore with respect to any of the foregoing; and

(vi) neither Parent nor Acquisition Corp. will enter into any new employment agreements with any of their officers or employees or grant any increases in the compensation or benefits of their officers and employees.

ARTICLE VII
ADDITIONAL AGREEMENTS

Section 7.1 Access and Information. The Company, Parent and Acquisition Corp. shall each afford to the other and to the other's accountants, counsel and other representatives reasonable access during normal business hours throughout the period prior to the Effective Time of all of its properties, books, contracts, commitments and records (including but not limited to Tax Returns) and during such period, each shall furnish promptly to the other all information concerning its business, properties and personnel as such other party may reasonably request, provided that no investigation pursuant to this Section 7.1 shall affect any representations or warranties made herein. Each party shall hold, and shall cause its employees and agents to hold, in confidence all such information (other than such information that (i) becomes generally available to the public other than as a result of a disclosure by such party or its directors, officers, managers, employees, agents or advisors, or (ii) becomes available to such party on a non-confidential basis from a source other than a party hereto or its advisors, provided that such source is not known by such party to be bound by a confidentiality agreement with or other obligation of secrecy to a party hereto or another party until such time as such information is otherwise publicly available; provided, however, that: (A) any such information may be disclosed to such party's directors, officers, employees and representatives of such party's advisors who need to know such information for the purpose of evaluating the transactions contemplated hereby (it being understood that such directors, officers, employees and representatives shall be informed by such party of the confidential nature of such information); (B) any disclosure of such information may be made as to which the party hereto

furnishing such information has consented in writing; (C) any such information may be disclosed pursuant to a judicial, administrative or governmental order or request provided, that the requested party will promptly so notify the other party so that the other party may seek a protective order or appropriate remedy and/or waive compliance with this Agreement and if such protective order or other remedy is not obtained or the other party waives compliance with this provision, the requested party will furnish only that portion of such information which is legally required and will exercise its best efforts to obtain a protective order or other reliable assurance that confidential treatment will be accorded the information furnished; and (D) any information reasonably required or necessary in the discretion of counsel to Parent or counsel to the Company to cause the Private Placement to comply with the requirements of Rule 10b-5 of the

Exchange Act shall be permitted. If this Agreement is terminated, each party will deliver to the other all documents and other materials (including copies) obtained by such party or on its behalf from the other party as a result of this Agreement or in connection herewith, whether so obtained before or after the execution hereof.

Section 7.2 Additional Agreements. Subject to the terms and conditions herein provided, each of the parties hereto agrees to use its commercially reasonable best efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement, including using its commercially reasonable best efforts to satisfy the conditions precedent to the obligations of any of the parties hereto to obtain all necessary waivers, and to lift any injunction or other legal bar to the Merger (and, in such case, to proceed with the Merger as expeditiously as possible). In order to obtain any necessary governmental or regulatory action or non-action, waiver, Consent, extension or approval, each of Parent, Acquisition Corp. and the Company agrees to take all reasonable actions and to enter into all reasonable agreements as may be necessary to obtain timely governmental or regulatory approvals and to take such further action in connection therewith as may be necessary. In case at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers and/or directors of Parent, Acquisition Corp. and the Company shall take all such necessary action.

Section 7.3 Publicity. No party shall issue any press release or public announcement pertaining to the Merger that has not been agreed upon in advance by Parent and the Company, except as Parent reasonably determines to be necessary in order to comply with the rules of the Commission; provided that in such case Parent will use its best efforts to allow Company to review and reasonably approve any same prior to its release.

Section 7.4 Appointment of Directors. Immediately upon the Effective Time, Parent shall accept the resignations of the current officers and directors of Parent as provided by Section 8.2(f)(6) hereof, and shall cause the persons listed as directors in Exhibit D hereto to be elected to the Board of Directors of Parent. At the first annual meeting of Parent stockholders and thereafter, the election of members of Parent's Board of Directors shall be accomplished in accordance with the by-laws of Parent.

Section 7.5 Parent Name Change and Exchange Listing. At the Effective Time, Parent shall take all required legal actions to change its corporate name to Novelos Therapeutics Holdings, Inc. .

Section 7.6 Stockholder Consent.

(a) So long as the Board of Directors of the Company shall not have withdrawn, modified or changed its recommendation in accordance with the provisions of Section 7.6(b) hereof, the Company, acting through its Board of Directors, shall, in accordance with the DGCL and its certificate of incorporation and by-laws, take all actions reasonably necessary to establish a record date for, duly call, give

notice of, convene and hold a stockholders meeting for the purpose of obtaining the requisite approval and adoption of this Agreement and the transactions contemplated hereby by the Stockholders as required by the DGCL and otherwise. The Company shall cause such

stockholder meeting to be held in accordance with the DGCL on or prior to May 31, 2005. The Company shall notify each Stockholder, whether or not entitled to vote, of the proposed Company stockholders' meeting in accordance with the DGCL and the certificate of incorporation and by-laws. Such meeting notice shall state that the purpose, or one of the purposes, of the meeting is to consider the Merger and shall contain or be accompanied by a copy or summary of this Agreement. Notwithstanding the foregoing, the Board of Directors of the Company shall not be required to take all actions reasonably necessary to establish a record date for, duly call, give notice of, convene and hold a stockholders meeting for the purpose of obtaining the requisite approval and adoption of this Agreement and the transactions contemplated hereby by the Stockholders if the Company Board of Directors and Stockholders otherwise takes all actions reasonably necessary to approve this Agreement and the transactions contemplated hereby by written consent in lieu of a meeting of the stockholders of the Company to the extent permitted by the DGCL.

(b) The Board of Directors of the Company shall unanimously recommend such approval and shall use all reasonable efforts to solicit and obtain such approval; provided, however, that the Board of Directors of the Company may at any time prior to approval of the Stockholders (i) decline to make, withdraw, modify or change any recommendation or declaration regarding this Agreement or the Merger or (ii) recommend and declare advisable any other offer or proposal, to the extent the Board of Directors of the Company determines in good faith, based upon advice of legal counsel, that withdrawing, modifying, changing or declining to make its recommendation regarding this Agreement or the Merger or recommending and declaring advisable any other offer or proposal is necessary to comply with its fiduciary duties under applicable law (which declinations, withdrawal, modification or change shall not constitute a breach by the Company of this Agreement). The Company shall provide written notice to Parent promptly upon the Company taking any action referred to in the foregoing proviso.

(c) Pursuant to Section 251(d) of the DGCL, at any time before the certificate of merger is filed with the Secretary of State of the State of Delaware, including any time after the Merger is authorized by the Stockholders, the Merger may be abandoned and this Agreement may be terminated in accordance with the terms hereof, without further action by the Stockholders.

ARTICLE VIII
CONDITIONS OF PARTIES' OBLIGATIONS

Section 8.1 Company Obligations. The obligations of Parent and Acquisition Corp. under this Agreement are subject to the fulfillment at or prior to the Closing of the following conditions, any of which may be waived in whole or in part by Parent.

(a) No Errors, etc. The representations and warranties of the Company under this Agreement shall be deemed to have been made again on the Closing Date and shall then be true and correct in all material respects.

(b) Compliance with Agreement. The Company shall have performed and complied in all material respects with all agreements and conditions required by this Agreement to be performed or complied with by it on or before the Closing Date.

(c) No Company Material Adverse Effect. Since the date hereof, there shall not have been any event or circumstance that has resulted in a Company Material Adverse Effect, and no event has occurred or circumstance exists that would reasonably be expected to result in a Company Material Adverse Effect.

(d) Certificate of Officers. The Company shall have delivered to Parent and Acquisition Corp. a certificate dated the Closing Date, executed on its behalf by the Chief Executive Officer of the Company, certifying the satisfaction of the conditions specified in paragraphs (a), (b) and (c) of this Section 8.1.

(e) Consummation of Private Placement. Consummation of the Merger shall occur simultaneously with the initial closing of the Private Placement.

(f) No Restraining Action. No Action or proceeding before any court, governmental body or agency shall have been threatened, asserted or instituted to restrain or prohibit, or to obtain substantial damages in respect of, this Agreement or the carrying out of the transactions contemplated by this Agreement.

(g) Supporting Documents. Parent and Acquisition Corp. shall have received the following:

(1) Copies of resolutions of the Board of Directors and the stockholders of the Company, certified by the Secretary of the Company, authorizing and approving the Merger and the execution, delivery and performance of this Agreement and all other documents and instruments to be delivered pursuant hereto and thereto.

(2) A certificate of incumbency executed by the Secretary of the Company certifying the names, titles and signatures of the officers authorized to execute any documents referred to in this Agreement and further certifying that the certificate of incorporation and by-laws of the Company delivered to Parent and Acquisition Corp. at the time of the execution of this Agreement have been validly adopted and have not been amended or modified since the date hereof.

(3) Evidence as of a recent date of the good standing and corporate existence of the Company issued by the Secretary of State of the State of Delaware.

Section 8.2 Parent and Acquisition Corp. Obligations. The obligations of the Company under this Agreement are subject to the fulfillment at or prior to the Closing of the following conditions any of which may be waived in whole or in part by the Company:

(a) No Errors, etc. The representations and warranties of Parent and Acquisition Corp. under this Agreement shall be deemed to have been made again on the Closing Date and shall then be true and correct in all material respects.

(b) Compliance with Agreement. Parent and Acquisition Corp. shall have performed and complied in all material respects with all agreements and conditions required by this Agreement to be performed or complied with by them on or before the Closing Date.

(c) No Parent Material Adverse Effect. Since the date hereof, there shall not have been any event or circumstance that has resulted in a Parent Material Adverse Effect and no event has occurred or circumstance exists that would be reasonably expected to result in such a Parent Material Adverse Effect.

(d) Certificate of Officers. Parent and Acquisition Corp. shall have delivered to the Company a certificate dated the Closing

Date, executed on their behalf by their respective Presidents, certifying the satisfaction of the conditions specified in paragraphs (a), (b), and (c) of this Section 8.2.

(e) Supporting Documents. The Company shall have received the following:

(1) Copies of resolutions of Parent's and Acquisition Corp.'s respective board of directors and the sole stockholder of Acquisition Corp., certified by their respective Secretaries, authorizing and approving the Merger and the execution, delivery and performance of this Agreement and all other documents and instruments to be delivered by them pursuant hereto.

(2) A certificate of incumbency executed by the respective Secretaries of Parent and Acquisition Corp. certifying the names, titles and signatures of the officers authorized to execute the documents referred to in paragraph (1) above and further certifying that the certificates of incorporation and by-laws of Parent and Acquisition Corp. appended thereto have not been amended or modified.

(3) A certificate, dated the Closing Date, executed by the Secretary of each of the Parent and Acquisition Corp., certifying that, except for the filing of the certificate of merger with the Secretary of State of the State of Delaware: (i) all consents, authorizations, orders and approvals of, and filings and registrations with, any court, governmental body or instrumentality that are required to be obtained by Parent or Acquisition Corp. for the execution and delivery of this Agreement and the consummation of the Merger shall have been duly made or obtained; and (ii) no action or proceeding before any court, governmental body or agency has been threatened, asserted or instituted against Parent or Acquisition Corp. to restrain or prohibit, or to obtain substantial damages in respect of, this Agreement or the carrying out of the transactions contemplated by this Agreement.

(4) A certificate of Pacific Stock Transfer, Parent's transfer agent and registrar, certifying as of the business day prior to the date that any shares of Parent Common Stock are first issued in the Private Placement, a true and complete list of the names and addresses of the record owners of all of the outstanding shares of Parent Common Stock, together with the number of shares of Parent Common Stock held by each record owner.

(5) A letter from Pacific Stock Transfer, Parent's transfer agent and registrar, certifying that the number of shares of Parent Common Stock issued and outstanding as of the Closing Date without giving effect to the initial closing of the Private Placement and the Merger, is 4,500,000 shares of Parent Common Stock.

(6) (i) The executed resignations of all directors and officers of Parent, with the director resignations to take effect at the Effective Time, and (ii) executed releases from each such director and officer in the form and substance acceptable to the Company in its sole discretion.

(7) Evidence as of a recent date of the good standing and corporate existence of each of the Parent and Acquisition Corp. issued by the Secretary of State of their respective states of incorporation.

(8) Such additional supporting documentation and other information with respect to the transactions contemplated hereby as the Company may reasonably request.

(f) Due Diligence. The Company shall have been and shall continue to be satisfied in its sole discretion (regardless of (1) the satisfaction of any or all of the other closing conditions, (2) any knowledge of such matters on or prior to the Closing Date or (3) any indication previously given by, or on behalf of, Company with respect to the satisfaction of any such matter) with the results of its and its representatives' due diligence investigation and evaluation of the Parent and Acquisition Corp. and each of the transactions contemplated hereby.

(g) Limitation on Dissenting Shares. The holders of not more than one percent (1.0%) of the outstanding shares of Company Capital Stock shall have exercised and not withdrawn such holder's right to appraisal and payment under Section 262 of the DGCL.

ARTICLE IX
INDEMNIFICATION AND RELATED MATTERS

Section 9.1 Indemnification by Parent. Parent shall indemnify and hold harmless the Company and the Stockholders (the "Company Indemnified Parties"), and shall reimburse the Company Indemnified Parties for, any loss, liability, claim, damage, expense (including, but not limited to, costs of investigation and defense and reasonable attorneys' fees) or diminution of value (collectively, "Damages") arising from or in connection with (a) any inaccuracy, in any material respect, in any of the representations and warranties of Parent and Acquisition Corp. in this Agreement or in any certificate delivered by Parent and Acquisition Corp. to the Company

pursuant to this Agreement, or any actions, omissions or statements of fact inconsistent with any such representation or warranty, (b) any failure by Parent or Acquisition Corp. to perform or comply in any material respect with any covenant or agreement in this Agreement, (c) any claim for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by any such party with Parent or Acquisition Corp. in connection with any of the transactions contemplated by this Agreement, (d) Taxes attributable to any transaction or event occurring on or prior to the Closing, (e) any claim relating to or arising out of any Liabilities reflected on the Parent Financial Statements or with respect to accounting fees arising thereafter, or (f) any litigation, action, claim, proceeding or investigation by any third party relating to or arising out of the business or operations of Parent, or the actions of Parent or any holder of Parent capital stock prior to the Effective Time.

Section 9.2 Survival. All representations, warranties, covenants and agreements of Parent and Acquisition Corp. contained in this Agreement or in any instrument delivered pursuant to this Agreement shall survive until twelve (12) months after the Closing Date. The representations and warranties of the Company contained in this Agreement or in any instrument delivered pursuant to this Agreement will terminate at, and have no further force and effect after, the Effective Time.

Section 9.3 Time Limitations. Neither Parent nor Acquisition Corp. shall have any liability (for indemnification or otherwise) with respect to any representation or warranty, or agreement to be performed and complied with prior to the Effective Time, unless on or before the one-year anniversary of the Effective Time (the "Claims Deadline"), Parent is given notice of a claim with respect thereto, in accordance with Section 9.5, specifying the factual basis therefore in reasonable detail to the extent then known by the Company Indemnified Parties.

Section 9.4 Limitation on Liability. The obligations to Parent and Acquisition Corp. to the Company Indemnified Parties set forth in Section 9.1 shall be subject to the following limitations:

(a) The aggregate liability of Parent and Acquisition Corp. to the Company Indemnified Parties under this Agreement shall not exceed $500,000.00.

(b) Other than claims based on fraud or for specific performance, injunctive or other equitable relief, the Company Indemnified Parties sole and exclusive remedy for any and all claims for Damages pursuant to Section 9.1 hereof shall be the indemnification provided under the terms and subject to the conditions of this Article IX.

Section 9.5 Notice of Claims.

(a) If, at any time on or prior to the Claims Deadline, Company Indemnified Parties shall assert a claim for indemnification pursuant to Section 9.1, such Company Indemnified Parties shall submit to Parent a written claim stating: (i) that a Company Indemnified Party incurred or reasonably believes it may incur Damages and the amount or reasonable estimate thereof of any such Damages; and (ii) in reasonable detail, the facts alleged as the basis for such claim and the section or sections of this Agreement alleged as the basis or bases for the claim. If the claim is for Damages which the Company Indemnified Parties reasonably believe may be incurred or are otherwise unliquidated, the written claim shall be deemed to have been asserted under this Article IX in the amount of such estimated Damages, but no payment for indemnification shall be made until such Damages have actually been incurred.

(b) In the event that any action, suit or proceeding is brought against any Company Indemnified Party with respect to which Parent may have liability under this Article IX, the Parent shall have the right, at its cost and expense, to defend such action, suit or proceeding in the name and on behalf of the Company Indemnified Party; provided, however, that a Company Indemnified Party shall have the right to retain its own counsel, with fees and expenses paid by Parent, if representation of the Company Indemnified Party by counsel retained by Parent would be inappropriate because of actual or potential differing interests between Parent and the Company Indemnified Party. In connection with any action, suit or proceeding subject to this Article IX, Parent and each Company Indemnified Party agree to render to each other such assistance as may reasonably be required in order to ensure proper and adequate defense of such action, suit or proceeding. Parent shall not, without the prior written consent of the applicable Company Indemnified Parties, which consent shall not be unreasonably withheld or delayed, settle or compromise any claim or demand if such settlement or compromise does not include an irrevocable and unconditional release of such Company Indemnified Parties for any liability arising out of such claim or demand.

Section 9.6 Payment of Damages. In the event that the Company Indemnified Parties shall be entitled to indemnification pursuant to this Article IX for actual Damages incurred by them, Parent shall, within thirty (30) days after the final determination of the amount of such Damages, cause the Parent Indemnitors to reimburse the Company Indemnified Parties for the amount of such Damages pursuant to the Parent Stockholder Indemnification Agreement.

ARTICLE X
TERMINATION PRIOR TO CLOSING

Section 10.1 Termination of Agreement. This Agreement may be terminated at any time prior to the Closing:

(a) by the mutual written consent of the Company, Acquisition Corp. and Parent;

(b) by the Company, if Parent or Acquisition Corp. (i) fails to perform in any material respect any of its agreements contained herein required to be performed by it on or prior to the Closing Date, (ii) materially breaches any of its representations, warranties or covenants contained herein, which failure or breach is not cured within thirty (30) days after the Company has notified Parent and Acquisition Corp. of its intent to terminate this Agreement pursuant to this paragraph (b);

(c) by Parent and Acquisition Corp., if the Company (i) fails to perform in any material respect any of its agreements contained herein required to be performed by it on or prior to the Closing Date, (ii) materially breaches any of its representations, warranties or covenants contained herein, which failure or breach is not cured within thirty (30) days after Parent or Acquisition Corp. has notified the Company of its intent to terminate this Agreement pursuant to this paragraph (c);

(d) by either the Company, on the one hand, or Parent and Acquisition Corp., on the other hand, if there shall be any order, writ, injunction or decree of any court or governmental or regulatory agency binding on Parent, Acquisition Corp. or the Company, which prohibits or materially restrains any of them from consummating the transactions contemplated hereby; provided that the parties hereto shall have used their best efforts to have any such order, writ, injunction or decree lifted and the same shall not have been lifted within ninety (90) days after entry, by any such court or governmental or regulatory agency;

(e) by either the Company, on the one hand, or Parent and Acquisition Corp., on the other hand, if the Closing has not occurred on or prior to June 15, 2005, for any reason other than delay or nonperformance of the party seeking such termination;

(f) by the Company, if the condition set forth in Section 8.2(h) has not been satisfied on or prior to June 15, 2005; or

(g) by the Company if the Board of Directors of the Company determines in good faith, based upon advice of legal counsel, that termination pursuant to this Section 10.1(g) is necessary to comply with its fiduciary duties under applicable law as provided in Section 7.6 hereof.

Section 10.2 Termination of Obligations. Termination of this Agreement pursuant to Section 10.1 hereof shall terminate all obligations of the parties hereunder, except for the obligations under Article IX, Article X, and Sections 11.4, 11.7, 11.14 and 11.15 hereof; provided, however, that termination pursuant to paragraphs (b) or (c) of Section 10.1 shall not relieve the defaulting or breaching party or parties from any liability to the other parties hereto.

ARTICLE XI
MISCELLANEOUS

Section 11.1 Amendments. Subject to applicable law, this Agreement may be amended or modified by the parties hereto by written agreement executed by each party to be bound thereby and delivered by duly authorized officers of the parties hereto at any time prior to the Effective Time; provided, however, that after the approval of the Merger by the Stockholders, no amendment or modification of this Agreement shall be made that by law requires further approval from the Stockholders without such further approval.

Section 11.2 Notices. Any notice, request, instruction, other document or communications to be given hereunder by any party hereto to any other party hereto shall be in writing and shall be deemed to have been duly given (a) when delivered personally, (b) upon receipt of a transmission confirmation (with a confirming copy delivered personally or sent by overnight courier) if sent by facsimile or like transmission, or (c) on the next business day when sent by Federal Express, United Parcel Service, U.S. Express Mail or other reputable overnight courier for guaranteed next day delivery, as follows:

<TABLE>

IF TO PARENT OR ACQUISITION CORP., TO: Common Horizons, Inc.
Attention: Edward Panos
620 Tam O'Shanter
Las Vegas, NV 89109
Telephone: (702) 989-0739.

Facsimile:

WITH A COPY TO:
Cane Clark, LLP
Attention: Kyleen Cane
3273 East Warm Springs Road, Suite 200
Las Vegas, NV 89120
Telephone: (702) 312-6255.
Facsimile: (702) 944-7100.

IF TO THE COMPANY, TO: Novelos Therapeutics, Inc.
Attention: Harry Palmin, President
One Gateway Center, Suite 504
Newton, MA 02458
Telephone: (617) 244-1616
Facsimile: (617) 964-6331

WITH A COPY TO:

Greenberg & Kahr
Attention: Andrew J. Levinson
230 Park Avenue - Suite 430
New York, NY 10169
Telephone: (212) 297-0130
Facsimile: (212) 953-7704
</TABLE>

or to such other persons or addresses as may be designated in writing by the party to receive such notice. Nothing in this Section 11.2 shall be deemed to constitute consent to the manner and address for service of process in connection with any legal proceeding (including arbitration arising in connection with this Agreement), which service shall be effected as required by applicable law.

Section 11.3 Entire Agreement. This Agreement, the Company Disclosure Schedule, the Parent Disclosure Schedule and the exhibits attached hereto or referred to herein constitute the entire agreement of the parties hereto, and supersede all prior agreements and undertakings, both written and oral, among the parties hereto, with respect to the subject matter hereof and thereof.

Section 11.4 Expenses. Except as otherwise expressly provided herein, whether or not the Merger occurs, all expenses and fees incurred by Parent on one hand, and the Company on the other, shall be borne solely and entirely by the party that has incurred the same; provided, that if the Merger occurs, Parent agrees to pay, and shall cause the Surviving Corporation to pay, any unpaid fees and expenses of the Company (including fees and expenses of its counsel and other advisors) in connection with the consummation of the transactions contemplated by this Agreement.

Section 11.5 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement will nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto will negotiate in good faith to amend or modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible.

Section 11.6 Successors and Assigns; Assignment. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned or delegated by any of the parties hereto without, in the case of Parent, the prior written approval of the Company and, in the case of the Company, the prior written approval of Parent.

Section 11.7 No Third Party Beneficiaries. Except as set forth in Section 9.1, Section 11.6, and the introductory paragraph of Article V hereof,

nothing herein expressed or implied shall be construed to give any person other than the parties hereto (and their successors and assigns as permitted herein) any legal or equitable rights hereunder.

Section 11.8 Counterparts; Delivery by Facsimile. This Agreement may be executed in multiple counterparts, and by the different parties hereto in separate counterparts, each of which when executed will be deemed to be an original but all of which taken together will constitute one and the same agreement. This Agreement and each other agreement or instrument entered into in connection herewith or therewith or contemplated hereby or thereby, and any amendments hereto or thereto, to the extent signed and delivered by means of a facsimile machine, shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any party hereto or to any such agreement or instrument, each other party hereto or thereto shall re-execute original forms thereof and deliver them to all other parties. No party hereto or to any such agreement or instrument shall raise the use of a facsimile machine to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through the use of a facsimile machine as a defense to the formation or enforceability of a contract and each such party forever waives any such defense.

Section 11.9 Waiver. At any time prior to the Effective Time, any party hereto may (a) extend the time for the performance of any of the obligations or other acts of the other party hereto; (b) waive any inaccuracies in the representations and breaches of the warranties of the other party contained herein or in any document delivered pursuant hereto; and (c) waive compliance by the other party with any of the agreements or conditions contained herein. Any such extension or waiver will be valid only if set forth in an instrument in writing signed by the party or parties to be bound thereby.

Section 11.10 No Constructive Waivers. No failure or delay on the part of any party hereto in the exercise of any right hereunder will impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty, agreement or covenant herein, nor will any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. No waiver by any party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

Section 11.11 Further Assurances. The parties hereto shall use their commercially reasonable efforts to do and perform or cause to be done and performed all such further acts and things and shall execute and deliver all such other agreements, certificates, instruments or documents as any other party hereto may reasonably request in order to carry out fully the intent and purposes of this Agreement and the consummation of the transactions contemplated hereby.

Section 11.12 Recitals. The recitals set forth above are incorporated herein and, by this reference, are made part of this Agreement as if fully set forth herein.

Section 11.13 Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 11.14 Governing Law. This Agreement and the agreements, instruments and documents contemplated hereby shall be governed by and construed and enforced in accordance with the laws of the State of Delaware without regard to its conflicts of law principles.

Section 11.15 Dispute Resolution. The parties hereto shall initially attempt to resolve all claims, disputes or controversies arising under, out of or in connection with this Agreement by conducting good faith negotiations amongst themselves. If the parties hereto are unable to resolve the matter following good faith negotiations, the matter shall thereafter be resolved by binding arbitration and each party hereto hereby waives any right it may

otherwise have to the resolution of such matter by any means other than binding arbitration pursuant to this Section 11.15. Whenever a party shall decide to institute arbitration proceedings, it shall provide written notice to that effect to the other parties hereto. The party giving such notice shall, however, refrain from instituting the arbitration proceedings for a period of sixty (60) days following such notice. During this period, the parties shall make good faith efforts to amicably resolve the claim, dispute or controversy without arbitration. Any arbitration hereunder shall be conducted in the English language under the commercial arbitration rules of the American Arbitration Association. Any such arbitration shall be conducted in New York, New York by a panel of three arbitrators: one arbitrator shall be appointed by each of Parent and Company; and the third shall be appointed by the American Arbitration Association. The panel of arbitrators shall have the authority to grant specific performance. Judgment upon the award so rendered may be entered in any court having jurisdiction or application may be made to such court for judicial acceptance of any award and an order of enforcement, as the case may be. In no event shall a demand for arbitration be made after the date when institution of a legal or equitable proceeding based on the claim, dispute or controversy in question would be barred under this Agreement or by the applicable statute of limitations. The prevailing party in any arbitration in accordance with this Section 11.15 shall be entitled to recover from the other party, in addition to any other remedies specified in the award, all reasonable costs, attorneys' fees and other expenses incurred by such prevailing party to arbitrate the claim, dispute or controversy.

Section 11.16 Interpretation.

(a) When a reference is made in this Agreement to a section or article, such reference shall be to a section or article of this Agreement unless otherwise clearly indicated to the contrary.

(b) Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

(c) The words "hereof", "hereby", "herein" and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, and article, section, paragraph, exhibit and schedule references are to the articles, sections, paragraphs, exhibits and schedules of this Agreement unless otherwise specified.

(d) The words "knowledge," or "known to," or similar terms, when used in this Agreement to qualify any representation or warranty, refers to the knowledge or awareness of certain specific facts or circumstances related to such representation or warranty of the persons in the Applicable Knowledge Group (as defined herein) which a prudent business person would have obtained after reasonable investigation or due diligence on the part of any such person. For the purposes hereof, the "Applicable Knowledge Group" with respect to the Company shall be Harry S. Palmin. For the purposes hereof, the "Applicable Knowledge Group" with respect to Parent and the Acquisition Corp. shall be Edward F. Panos.

(e) The word "subsidiary" shall mean any entity of which at least a majority of the outstanding shares or other equity interests having ordinary voting power for the election of directors or comparable managers of such entity is owned, directly or indirectly by another entity or person.

(f) For purposes of this Agreement, "ordinary course of business" means the ordinary course of business consistent with past custom and practice (including with respect to quantity and frequency).

(g) The plural of any defined term shall have a meaning correlative to such defined term, and words denoting any gender shall include all genders. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

(h) A reference to any legislation or to any provision of any

legislation shall include any modification or re-enactment thereof, any legislative provision substituted therefor and all regulations and statutory instruments issued thereunder or pursuant thereto, unless the context requires otherwise.

(i) The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises,

this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

[The remainder of this page intentionally blank]

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed as of the date first above written by their respective officers thereunto duly authorized.

COMPANY:

NOVELOS THERAPEUTICS, INC.

By: /s/ HARRY S. PALMIN

Harry S. Palmin, President

PARENT:

COMMON HORIZONS, INC.

By: /s/ EDWARD PANOS

Name: Edward Panos

Title: President

ACQUISITION CORP.:

NOVE ACQUISITION, INC.

By: /s/ EDWARD PANOS

Name: Edward Panos

Title: President

NOVELOS THERAPEUTICS, INC. (A
DEVELOPMENT STAGE COMPANY)

Financial Statements as of and for the
Years Ended December 31, 2004, 2003 and
2002 and Cumulative Since Inception (June 21,
1996) and Independent Auditors' Report

NOVELOS THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors
Novelos Therapeutics, Inc.
Newton, Massachusetts

We have audited the accompanying balance sheets of Novelos Therapeutics, Inc. (a development stage company) as of December 31, 2004, 2003 and 2002, and the related statements of operations, stockholders' deficiency and cash flows for the years then ended and for the period January 1, 2002 to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Novelos Therapeutics, Inc. as of December 31, 2001 and for the period June 21, 1996 (date of inception) to

December 31, 2001, were audited by other auditors whose report dated March 15, 2002, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Novelos Therapeutics, Inc. (a development stage company) as of December 31, 2004, 2003 and 2002 and the results of its operations, changes in stockholders' deficiency and its cash flows for the three years then ended and for the period June 21, 1996 (inception) to December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company is a development stage enterprise engaged in developing and testing proprietary immuno-modulating and cytoprotective drugs to treat cancer in combination with chemotherapy and infectious diseases. As discussed in Note 1 to the financial statements, the stockholders' deficiency and the deficiency in working capital at December 31, 2004 raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ STOWE & DEGON

Worcester, Massachusetts
February 9, 2005

NOVELOS THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)

BALANCE SHEETS
DECEMBER 31, 2004, 2003 AND 2002

<TABLE>

	2004	2003	2002
ASSETS			
CURRENT ASSETS:			
Cash and equivalents	$ 10,356	$ 183,365	$ 5,228
Accounts receivable	12,584	12,684	23,500
Prepaid expenses and other current assets	79,631	4,412	2,754
Total current assets	102,571	200,461	31,482
FIXED ASSETS, net	--	2,538	14,662
INVESTMENT IN PHYTERA	--	--	--
DEPOSITS	6,000	6,000	18,169
TOTAL ASSETS	$ 108,571	$ 208,999	$ 64,313
LIABILITIES AND STOCKHOLDERS' DEFICIENCY			

CURRENT LIABILITIES:			
Accounts payable and accrued liabilities	$ 2,026,171	$ 1,711,977	$ 1,804,319
Accrued interest	397,612	223,092	163,407
Notes payable to stockholders	2,017,931	1,798,931	948,931
Current portion of long-term debt	1,840	2,832	2,470
Total current liabilities	4,443,554	3,736,832	2,919,127
DEPOSIT ON CONVERTIBLE PREFERRED STOCK, SERIES B	1,142	1,142	--
DEFERRED REVENUE	12,584	12,684	258,618
DEFERRED RENT	250	--	38,061
LONG-TERM DEBT	--	1,840	4,671
Total liabilities	4,457,530	3,752,498	3,220,477
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' DEFICIENCY:			
Convertible preferred stock, Series A	--	4,078,764	3,960,602
Convertible preferred stock, Series B	--	3,687,905	3,382,986
Common stock	44	200	200
Additional paid-in capital	7,998,110	82,696	74,891
Notes receivable, convertible preferred stock, Series A	--	--	(160,000)
Deficit accumulated during development stage	(12,345,157)	(11,393,064)	(10,414,843)
Treasury stock (195,672 shares), at cost	(1,956)	--	--
Total stockholders' deficiency	(4,348,959)	(3,543,499)	(3,156,164)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 108,571	$ 208,999	$ 64,313

</TABLE>

See notes to financial statements

NOVELOS THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
AND CUMULATIVE SINCE INCEPTION (JUNE 21, 1996) TO DECEMBER 31, 2004

<TABLE>

	YEAR ENDED DECEMBER 31,			CUMULATIVE SINCE INCEPTION TO DECEMBER 31,
	2004	2003	2002	2004
REVENUES:				
Sales of samples	$ 4,962	$ 10,816	$ 43,694	$ 64,472
Revenue earned under licensing agreements	--	9,921	60,925	157,155
Total revenue	4,962	20,737	104,619	221,627
COSTS AND EXPENSES:				
Research and development (1)	261,768	207,913	472,016	3,901,031
General and administrative (2)	368,413	452,446	710,070	4,723,407

Total costs and expenses	630,181	660,359	1,182,086	8,624,438
OTHER INCOME (EXPENSE):				
Consulting revenue	13,374	26,000	40,000	99,374
Interest income	95	231	36	27,271
Interest expense	(208,741)	(75,176)	(53,237)	(593,356)
HCA Deferred revenue	--	225,198	--	225,198
Miscellaneous	5,206	30,729	--	35,935
Loss on cancellation of Phytera license agreement	--	--	(1,133,353)	(1,133,353)
Loss on investment in Phytera	--	--	(82,500)	(1,000,000)
Total other expense	(190,066)	206,982	(1,229,054)	(2,338,931)
LOSS BEFORE EXTRAORDINARY LOSS	(815,285)	(432,640)	(2,306,521)	(10,741,742)
EXTRAORDINARY LOSS	--	--	--	(134,200)
NET LOSS	(815,285)	(432,640)	(2,306,521)	(10,875,942)
ACCRETION ON CONVERTIBLE PREFERRED STOCK, SERIES A	(69,541)	(278,162)	(278,162)	(1,010,416)
ACCRETION ON CONVERTIBLE PREFERRED STOCK SERIES B	(67,267)	(267,419)	(112,327)	(483,369)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (952,093)	$ (978,221)	$ (2,697,010)	$(12,369,727)

</TABLE>

(1) Includes noncash compensation of $0, $289, $834 and $26,411 for the years ended December 31, 2004, 2003 and 2002 and cumulative since inception (June 21, 1996), respectively

(2) Includes noncash compensation of $7,868, $7,516, $4,282 and $87,571 for the years ended December 31, 2004, 2003 and 2002 and cumulative since inception (June 21, 1996), respectively

See notes to financial statements

NOVELOS THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF STOCKHOLDERS' DEFICIENCY
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
AND CUMULATIVE SINCE INCEPTION (JUNE 21, 1996) TO DECEMBER 31, 2004

<TABLE>

	COMMON STOCK		CONVERTIBLE PREFERRED STOCK, SERIES A		CONVERTIBLE PREFERRED STOCK, SERIES B	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT
INCEPTION (JUNE 21, 1996)	-	$ -	-	$ -	-	$ -
Issuances of common stock	10,000	100	-	-	-	-
Stock dividend	10,000	100	-	-		
Net loss	-	-	-	-	-	-
BALANCE, DECEMBER 31, 1996	20,000	200	-	-	-	-
Net loss	-	-	-	-	-	-

BALANCE, DECEMBER 31, 1997	20,000	200	-	-	-	-
Recapitalization	(240)	(2)	-	-	-	-
Issuances of common stock for obligation payment	240	2	-	-	-	-
Award of shares by principal stockholders to third parties for services	-	-	-	-	-	-
Net loss	-	-	-	-	-	-
BALANCE, DECEMBER 31, 1998	20,000	200	-	-	-	-
Net loss	-	-	-	-	-	-
BALANCE, DECEMBER 31, 1999	20,000	200	-	-	-	-
Issuances of convertible preferred stock, net of issuance costs of $57,619	-	-	2,783	3,297,889	-	-
Note receivable	-	-	-	-	-	-
Accretion on Series A	-	-	-	106,389	-	-
Stock-based compensation	-	-	-	-	-	-
Net loss	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2000	20,000	200	2,783	3,404,278	-	-
Issuances of convertible preferred stock, net of issuance costs of $26,681	-	-	-	-	578	840,319
Note receivable	-	-	-	-	-	-
Accretion on Series A	-	-	-	278,162	-	-
Accretion on Series B	-	-	-	-	-	36,356
Stock-based compensation	-	-	-	-	-	-
Net loss	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2001	20,000	$ 200	2,783	$ 3,682,440	578	$ 876,675

</TABLE>

<TABLE>

	NOTES RECEIVABLE	ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE	TREASURY STOCK	TOTAL STOCKHOLDERS' DEFICIENCY
INCEPTION (JUNE 21, 1996)	$ -	$ -	$ -	$ -	$ -
Issuances of common stock	-	-	-	-	100
Stock dividend					100
Net loss	-	-	(47,673)	-	(47,673)
BALANCE, DECEMBER 31, 1996	-	-	(47,673)	-	(47,473)
Net loss	-	-	(279,905)	-	(279,905)
BALANCE, DECEMBER 31, 1997	-	-	(327,578)	-	(327,378)
Recapitalization	-	-	-	-	(2)
Issuances of common stock for obligation payment	-	1,198	-	-	1,200
Award of shares by principal stockholders to third parties for services	-	22,754	-	-	22,754
Net loss	-	-	(975,126)	-	(975,126)
BALANCE, DECEMBER 31, 1998	-	23,952	(1,302,704)	-	(1,278,552)
Net loss	-	-	(1,668,291)	-	(1,668,291)
BALANCE, DECEMBER 31, 1999	-	23,952	(2,970,995)	-	(2,946,843)

Issuances of convertible preferred stock, net of issuance costs of $57,619	-	-	-	-	3,297,889
Note receivable	(274,000)	-	-	-	(274,000)
Accretion on Series A	-	(24,570)	(81,819)	-	-
Stock-based compensation	-	618	-	-	618
Net loss	-	-	(2,029,261)	-	(2,029,261)
BALANCE, DECEMBER 31, 2000	(274,000)	-	(5,082,075)	-	(1,951,597)
Issuances of convertible preferred stock, net of issuance costs of $26,681	-	-	-	-	840,319
Note receivable	114,000	-	-	-	114,000
Accretion on Series A	-	-	(278,162)	-	-
Accretion on Series B	-	-	(36,356)	-	-
Stock-based compensation	-	69,775	-	-	69,775
Net loss	-	-	(2,321,240)	-	(2,321,240)
BALANCE, DECEMBER 31, 2001	$ (160,000)	$ 69,775	$ (7,717,833)	$ -	$ (3,248,743)

</TABLE>

NOVELOS THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF STOCKHOLDERS' DEFICIENCY (CONTINUED)
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
AND CUMULATIVE SINCE INCEPTION (JUNE 21, 1996) TO DECEMBER 31, 2004

<TABLE>

	COMMON STOCK		CONVERTIBLE PREFERRED STOCK, SERIES A		CONVERTIBLE PREFERRED STOCK, SERIES B	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT
BALANCE, DECEMBER 31, 2001	20,000	$ 200	2,783	$ 3,682,440	578	$ 876,675
Issuances of convertible preferred stock, net of issuance costs of $3,016	-	-	-	1,598	2,393,984	
Accretion on Series A	-	-	278,162	-	-	
Accretion on Series B	-	-	-	-	112,327	
Stock based compensation	-	-	-	-	-	
Net loss	-	-	-	-	-	
BALANCE DECEMBER 31, 2002	20,000	200	2,783	3,960,602	2,176	3,382,986
Issuances of convertible preferred stock, net of issuance costs of $-0-	-	-	-	25	37,500	
Write off of notes receivable	-	-	(160,000)	-	-	
Accretion on Series A	-	-	278,162	-	-	
Accretion on Series B	-	-	-	-	267,419	
Stock based compensation	-	-	-	-	-	
Net loss	-	-	-	-	-	
BALANCE DECEMBER 31, 2003	20,000	200	2,783	4,078,764	2,201	3,687,905
Recapitalization	4,014,782	(160)	(2,783)	(4,148,305)	(2,201)	(3,755,172)
Accretion on Series A	-	-	69,541	-	-	
Accretion on Series B	-	-	-	-	67,267	

Shares issued in consideration of cancellation of escrow agreement	391,344	4	-	-	-	-
Stock based compensation	-	-	-	-	-	-
Treasury stock acquired (195,672 shares)	-	-	-	-	-	-
Net loss	-	-	-	-	-	-
BALANCE DECEMBER 31, 2004	4,426,126	$ 44	-	$ -	-	$ -

See notes to financial statements

</TABLE>

<TABLE>

	NOTES RECEIVABLE	ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE	TOTAL TREASURY STOCK	STOCKHOLDERS' DEFICIENCY
BALANCE, DECEMBER 31, 2001	$ (160,000)	$ 69,775	$ (7,717,833)	$ -	$ (3,248,743)
Issuances of convertible preferred stock, net of issuance costs of $3,016	-	-	-	-	2,393,984
Accretion on Series A	-	-	(278,162)	-	-
Accretion on Series B	-	-	(112,327)	-	-
Stock based compensation	-	5,116	-	-	5,116
Net loss	-	-	(2,306,521)	-	(2,306,521)
BALANCE DECEMBER 31, 2002	(160,000)	74,891	(10,414,843)	-	(3,156,164)
Issuances of convertible preferred stock, net of issuance costs of $-0-	-	-	-	-	37,500
Write off of notes receivable	160,000	-	-	-	-
Accretion on Series A	-	-	(278,162)	-	-
Accretion on Series B	-	-	(267,419)	-	-
Stock based compensation	-	7,805	-	-	7,805
Net loss	-	-	(432,640)	-	(432,640)
BALANCE DECEMBER 31, 2003	-	82,696	(11,393,064)	-	(3,543,499)
Recapitalization	-	7,903,637	-	-	-
Accretion on Series A	-	-	(69,541)	-	-
Accretion on Series B	-	-	(67,267)	-	-
Shares issued in consideration of cancellation of escrow agreement	-	3,909	-	-	3,913
Stock based compensation	-	7,868	-	-	7,868
Treasury stock acquired (195,672 shares)	-	-	-	(1,956)	(1,956)
Net loss	-	-	(815,285)	-	(815,285)
BALANCE DECEMBER 31, 2004	$ -	$ 7,998,110	$ (12,345,157)	$ (1,956)	$ (4,348,959)

See notes to financial statements
</TABLE>

NOVELOS THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

AND CUMULATIVE SINCE INCEPTION (JUNE 21, 1996) TO DECEMBER 31, 2004

<TABLE>

	YEAR ENDED DECEMBER 31,			CUMULATIVE SINCE INCEPTION (JUNE 21, 1996) TO DECEMBER 31,
	2004	2003	2002	2004
Net loss	$ (815,285)	$ (432,640)	$ (2,306,521)	$ (10,875,942)
Adjustments to reconcile net loss to cash used for operating activities:				
Depreciation and amortization	2,538	6,037	8,197	33,814
Amortization of debt discount	-	-	-	55,146
Stock-based compensation	7,868	7,805	5,116	113,982
Gain on disposal of leasehold improvements	-	(27,029)	-	(27,029)
Loss on cancellation of license agreement	-	-	1,133,353	1,133,353
Loss on investment in Phytera	-	-	82,500	1,000,000
Extraordinary loss on equity issued	-	-	-	134,200
Noncash compensation and consulting expense	-	-	-	827,731
Increase (decrease) in cash from:				
Accounts receivable	100	10,816	(23,500)	(12,584)
Prepaid expenses and other current assets	(75,219)	(1,658)	11,231	(79,631)
Deposits	-	12,169	-	(6,000)
Accounts payable and accrued expenses	314,194	(92,342)	444,868	2,330,435
Accrued interest	174,520	59,685	52,089	397,612
Deferred revenue	(100)	(245,934)	(37,426)	(119,769)
Deferred rent	250	(4,945)	7,255	33,366
Cash used for operating activities	(391,134)	(708,036)	(622,838)	(5,061,316)
Purchase of fixed assets	-	-	-	(26,840)
Proceeds from issuance of common stock	-	-	-	200
Proceeds from issuance of convertible preferred stock, Series A, net	-	-	-	782,631
Proceeds from issuance of convertible preferred stock, Series B, net	-	37,500	380,984	1,061,642
Proceeds from deposit on convertible preferred stock, Series B	-	1,142	12,000	210,303
Payments of long-term debt	(2,832)	(2,469)	(2,153)	(11,221)
Proceeds from issuance of promissory notes	219,000	900,000	150,000	3,303,000
Payment of promissory notes	-	(50,000)	-	(250,000)
Cash provided by financing activities	216,168	886,173	540,831	5,096,555
(DECREASE) INCREASE IN CASH AND EQUIVALENTS	(174,966)	178,137	(82,007)	8,399
CASH AND EQUIVALENTS, BEGINNING OF YEAR	183,365	5,228	87,235	-
CASH AND EQUIVALENTS, END OF YEAR	$ 8,399	$ 183,365	$ 5,228	$ 8,399

</TABLE>

NOVELOS THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
AND CUMULATIVE SINCE INCEPTION (JUNE 21, 1996) TO DECEMBER 31, 2004

<TABLE>

	CUMULATIVE SINCE INCEPTION (JUNE 21, 1996)

	YEAR ENDED DECEMBER 31,			TO DECEMBER 31,
	2004	2003	2002	2004
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the year for:				
Interest	$ 33,750	$ 12,000	$ --	$ 45,750
SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES				
Common stock issued for services	$ --	$ --	$ --	$ 52,800
Promissory note issued in exchange for accounts payable	$ --	$ --	$ --	$ 181,854
Equipment acquired under capital lease	$ --	$ --	$ --	$ 13,061
Redeemable convertible preferred stock, Series A, issued in exchange for notes payable and accrued interest	$ --	$ --	$ --	$2,097,548
Redeemable convertible preferred stock, Series A, issued in exchange for accrued compensation and accrued consulting	$ --	$ --	$ --	$ 126,000
Redeemable convertible preferred stock, Series A, issued in exchange for accounts payable	$ --	$ --	$ --	$ 17,710
Redeemable convertible preferred stock, Series B, issued in exchange for deposit on series B	$ --	$ --	$ --	$ 197,161
Notes payable issued in exchange for accrued compensation	$ --	$ --	$ --	$ 678,931
Notes receivable issued for convertible preferred stock, Series A	$ --	$ --	$ --	$ 274,000
Offset of notes payable against notes receivable	$ --	$ --	$ --	$ 114,000
Deferred revenue from receipt of Phytera preferred stock	$ --	$ --	$ --	$1,000,000
Deferred revenue reversed upon cancellation of license agreement	$ --	$ --	$ 867,467	$ 867,467
Redeemable convertible preferred stock, Series B, issued in exchange for cancellation of license agreement	$ --	$ --	$2,001,000	$2,001,000
Deferred rent reversed upon early termination of lease	$ --	$ 33,116	$ --	$ 33,116

</TABLE>

See notes to financial statements

1. NATURE OF BUSINESS

Novelos Therapeutics, Inc. (the "Company") was incorporated on June 21, 1996 (inception) as AVAM International, Inc. ("AVAM"). On October 6, 1998, Novelos Therapeutics, Inc., a newly incorporated entity, merged into AVAM, and the name of AVAM was changed to Novelos Therapeutics, Inc. Simultaneously, the Company executed a reverse stock split of .9880-to-1. The Company has exclusive intellectual property and marketing rights to a drug development platform technology, worldwide, excluding Russia and the Commonwealth of Independent States. It has obtained ownership rights of all patents on the technology that have been granted in the Company's territory. The Company focuses on therapeutics for the treatment of various cancers and infectious diseases. Activities to date have consisted primarily of research and development. Accordingly, the Company is reported as a development-stage enterprise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING - The accompanying financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, at December 31, 2004, the Company had a stockholders' deficiency of $4,348,959 and its current liabilities exceeded its current assets by $4,340,983. These factors give rise to substantial doubt about the Company's ability to continue as a going concern.

The Company is subject to a number of risks similar to those of other companies in an early stage of development. Principal among these risks are dependence on key individuals, competition from substitute products and larger companies, the successful development and marketing of its products, and the need to obtain additional financing necessary to fund future operations.

The Company's continuation as a going concern is dependent upon its ability to continue business development, obtain United States Food and Drug Administration approval to market its products, create sales, meet its obligations, raise additional capital financing and, ultimately, attain profitable operations. Management is continuing its efforts to obtain additional funds so that the Company can meet its obligations and sustain operations through private placement offerings, potential collaborative agreements, bank financing, and operations.

USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS - Certain reclassifications have been made to the 2002 and 2003 amounts to conform to the 2004 presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH EQUIVALENTS - The Company considers all short-term investments purchased with original maturities of three months or less to be cash equivalents.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost.

Depreciation on property and equipment is provided using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Leasehold improvements are depreciated over the lesser of the estimated useful lives of the assets or the remaining lease term.

INVESTMENT IN PHYTERA - At December 31, 2004, the Company held 330,033 shares of Phytera, Inc. ("Phytera") Series F preferred stock. This investment initially was recorded at its estimated fair market value upon receipt, in the amount of $1,000,000 ($3.03 per share) (see Note 7). As there is no ready market for this security at this time, the Company has considered other pertinent information, including recent transactions, operating results, and financial condition to determine if an impairment exists. The Company determined that the fair market value of the investment was $82,500 ($0.25 per share) at December 31, 2001. The impairment of the fair market value of the investment was considered other than temporary and, accordingly, the Company wrote down the investment to reflect the estimated fair market value at December 31, 2001 and recorded a loss on the investment of $917,500 at that time. During 2002 the Company determined the fair market value of the investment was $0 and that the further impairment was less than temporary. As a result the Company recorded a loss on investment of $82,500 during 2002.

REVENUE RECOGNITION - Revenue from sales of samples is recognized when persuasive evidence of an arrangement exists, the price is fixed and determinable, delivery has occurred, and there is reasonable assurance of collection.

Research under collaborative research and development agreements will be recognized as research is performed under the terms of the agreements, when there is an obligation to pay, and when no future performance obligations exist. Consideration received in advance, whether cash, equity securities or other instruments, is initially recorded as deferred revenue and recognized when earned. Revenue earned upon the attainment of research or product development milestones will be recognized over the terms of the related agreements, once all contingencies are eliminated, after taking into consideration the cost to date and the estimated total cost of the research activities.

Revenue earned under licensing agreements consisted of two nonrefundable, up-front license fees related to a marketing and development agreement and the collaboration agreement with Phytera. The license fees had been deferred and were being amortized into revenue over 21 years for the marketing and development agreement and 17 years for the license agreement with Phytera, which represented the estimated lives of the related agreements. The marketing and development agreement was terminated in November 2003 by the other party to the agreement. As of the termination date neither party had any further obligations under the agreement. Therefore, effective on the termination date the company recognized the unamortized portion of deferred revenue related to this agreement, as other income.

In November of 2002 Novelos and Phytera agreed to terminate their license agreement. The Company agreed to pay Phytera $2,001,000 through the issuance of Novelos Series B preferred stock. On the termination date Novelos had on its balance sheet unamortized deferred revenue in the amount of $867,647. As a result of the termination Novelos recorded a loss of $2,001,000 less the unamortized deferred income of $867,647 in other expense during 2002.

RESEARCH AND DEVELOPMENT - Research and development costs are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES - The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." SFAS No. 109 requires the recognition of

deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The provision for income taxes in the statements of operations is the actual computed tax obligation or receivable for the period, plus or minus the change during the period in deferred income tax assets and liabilities.

STOCK-BASED COMPENSATION - The Company accounts for stock option awards granted to officers, directors, and employees (collectively, employees) under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25). For the years ended December 31, 2004, 2003 and 2002 stock-based employee compensation cost of $0, $289 and $834, respectively, is reflected in net loss for all options granted to employees under the plan which have been granted at exercise prices below the fair value of the underlying stock. For those options granted at exercise prices equal to or greater than the fair market value of the underlying stock on the date of the grant, the Company applies the disclosure only provision of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-based Compensation (SFAS 123), and SFAS No. 148, Accounting for Stock-based Compensation - Transition and Disclosure (SFAS 148). The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Year ended December 31,		
	2004	2003	2002
Net loss as reported	$ 813,328	$ 432,640	$2,306,521
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	3,200	3,300	2,000
Proforma net loss	$ 810,128	$ 429,340	$2,304,521

Stock or other equity-based compensation for non-employees must be accounted for under the fair-value method as required by SFAS No. 123 and Emerging Issues Task Force ("EITF") No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction With Selling, Goods or Services." Under this method, the equity-based instrument is valued at either the fair value of the consideration received or the equity instrument issued on the date of vesting. The resulting compensation cost is recognized and charged to operations over the service period. The measurement date is generally the issuance date for employees and the vesting date for consultants. The resulting non-cash expense is being recorded in the statements of operations over the vesting period of the stock option

As described in Note 3, the preferred shares issued in exchange for notes receivable are accounted for under variable accounting in accordance with APB Opinion No. 25. Total non-cash compensation expense charged to operations was $67,905 in 2001 and cumulative since inception (June 21, 1996).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPREHENSIVE INCOME (LOSS) - The Company had no components of comprehensive income other than net loss in all of the periods presented.

CONCENTRATION OF CREDIT RISK - The Company maintains deposits in financial institutions, which occasionally exceed federally insured limits. Senior management continually reviews the financial stability of this institution.

IMPAIRMENT OF LONG-LIVED ASSETS - At each balance sheet date, the Company assesses whether there has been an impairment in the value of long-lived assets by determining whether projected undiscounted cash flows generated by the applicable asset exceed its net book value as of the assessment date. As described in "Investment in Phytera," in 2002 the Company adjusted the carrying value of that investment. There were no other impairments of the Company's assets at the end of each period presented.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT - In February 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) beginning May 31, 2003. The Company adopted this statement, as required, and such adoption had no effect on the Company's financial position or results of operations.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and that the use of the pooling-of-interest method is no longer allowed. The Company adopted this statement, as required, and such adoption had no effect on the Company's financial position or results of operations. SFAS No. 142 requires that upon adoption, amortization of goodwill will cease and instead, the carrying value of goodwill will be evaluated for impairment on an annual basis. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed for impairment. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. On January 1, 2002, the Company adopted this statement, as required, and such adoption had no effect on the Company's financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," in its entirety, and APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," only for segments to be disposed of. SFAS No. 144 establishes a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale, and resolves implementation issues related to SFAS No. 121. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. On January 1, 2002, the Company adopted this statement, and such adoption had no effect on the Company's financial position or results of operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING PRONOUNCEMENTS - In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No.123 (revised 2004), "Share-Based Payment" (SFAS 123R) which will be effective for the year ending December 31, 2006. SFAS 123R will result in the recognition of substantial compensation expense relating to our employee stock option plans. The Company currently uses the intrinsic value method to measure compensation expense for stock-based awards to its employees. Under this standard, the Company generally does not recognize any compensation related to stock option grants the Company issues under its stock option plans. Under the new rules, the Company will be required to adopt a fair-value-based method for measuring the compensation expense related to employee stock awards; this will lead to additional

compensation expense and therefore will have a adverse effect on the Company's reported results of operations. The paragraph entitled Stock Based Compensation above provides the pro forma net income and earnings per share as if the Company had used a fair-value-based method similar to the methods required under SFAS 123R to measure the compensation expense for employee stock awards during fiscal 2004, 2003 and 2002.

3. FIXED ASSETS

Fixed assets consisted of the following at December 31:

	2004	2003	2002
Office equipment	$ 26,364	$ 26,364	$ 26,364
Leashold improvements	--	--	13,515
Total fixed assets	26,364	26,364	39,879
Less accumulated depreciation and amortization	(26,364)	(23,826)	(25,217)
Fixed assets, net	$ --	$ 2,538	$ 14,662

Included in fixed assets is equipment under capital lease with a cost of $13,061. Accumulated depreciation on such equipment was $13,061, $11,102 and $8,489 at December 31, 2004, 2003 and 2002, respectively.

4. STOCKHOLDERS' EQUITY

COMMON STOCK - On March 26, 2004, in accordance with the consent of the Company's stockholders, the Company effected a 71.3064 for 1 stock split in the form of a stock dividend of 70.3064 shares for stockholders of record on that date. In addition each outstanding share of Series A preferred stock was converted into 473.33 shares of Common stock and each outstanding share of Series B preferred stock was converted into 586.7233 shares of common stock. All shares of Series A and Series B preferred stock, and accrued dividends thereon, were cancelled upon exchange for Common shares. Concurrent with the stock dividend and conversion of Series A and Series B preferred stock the par value of the Company's common stock was changed from $.01 to $.00001.

4. STOCKHOLDERS' EQUITY (CONTINUED)

CONVERTIBLE PREFERRED STOCK - On March 26, 2004 all outstanding shares of Series A and Series B preferred stock were converted into Common stock as described above. During 2000, the Company issued 2,783 shares of Series A Convertible Preferred Stock ("Series A") at a price of $1,206.27 per share for total proceeds of $3,357,049, less issuance costs of $59,160, comprised of cash $841,791, forgiveness of accounts payable, accrued liabilities and notes payable totaling $2,241,258 and a note receivable of $274,000. Of these shares, 504 were issued for cash of $590,250 and forgiveness of $17,710 of accounts payable from a private investor; 1,741 shares were issued in exchange for forgiveness of $2,097,548 of notes payable and accrued interest; 331 shares were issued to a stockholder of the Company for $250,000 in cash, $100,000 of notes receivable and forgiveness of $50,000 of accrued consulting expense; and the remaining 207 shares were issued to the officers of the Company for $174,000 of notes receivable and forgiveness of $76,000 of accrued compensation.

The shares issued in exchange for notes receivable have been accounted for in accordance with EITF No. 95-16, "Accounting for Stock Compensation Agreements with Employer Loan Features under APB Opinion No. 25," which states that the measurement date of the related shares is not known until the notes are settled because of the option to prepay the notes prior to their terms. As such, the change in fair market value of the shares is

recorded in the statement of operations each period. The fair market value of the Series A was $1,500 and $1,206 at December 31, 2001 and 2000, respectively. Non-cash compensation expense of $67,905 was recorded in the statement of operations for the year ended December 31, 2001 and cumulative since inception (June 21, 1996), respectively, relating to the increase in the stock's value.

During the year ended December 31, 2003 the Company forgave the portion of the noted receivable, which remained unpaid in the amount of $160,000.

During 2001, the Company issued 578 shares of Series B Convertible Preferred Stock ("Series B") at a price of $1,500 per share for total cash proceeds of $867,000 less issuance costs of $26,681. All rights and privileges of the Series B are pari passu with those of Series A. At December 31, 2000, the Company had received a deposit of $197,161 for 134 of these shares, which was recorded as a liability, net of $2,839 of legal expenses.

During 2002 the Company issued 1,598 shares of Series B at a price of $1,500 for total proceeds of $2,397,000 less issuance costs of $3,016. Of these shares, 264 were issued for cash of $396,000 and 1,334 were issued in exchange for cancellation of the collaboration agreement with Phytera.

During 2003 the Company issued 25 shares of Series B at a price of $1,500 for total cash proceeds of $37,500. At December 31, 2003 the Company had received a deposit of $1,142 toward the future purchase of Series B stock.

The rights and privileges of the Series A and Series B preferred stock are listed below:

CONVERSION - The preferred stock was convertible into common stock at the rate of one share of common stock for each share of preferred stock, adjustable for certain dilutive events. Conversion was at the option of the preferred stockholder but was mandatory upon the closing of an IPO of the Company's common stock at a per-share price of at least $5.00, with gross proceeds to the Company of at least $30,000,000.

4. STOCKHOLDERS' EQUITY (CONTINUED)

VOTING RIGHTS - The holders of preferred stock were entitled to vote on all matters and were entitled to the number of votes equal to the number of shares of common stock into which the preferred stock is convertible.

DIVIDENDS - The holders of preferred stock were entitled to receive cash dividends at an annual rate of $96.50 and $120 for Series A and Series B, respectively. Dividends were cumulative from the date of issuance and payable on the earliest of liquidation, redemption, or declaration by the Board of Directors. The preferred shareholders were entitled to receive, prior to any dividend or other distribution to holders of common stock, dividends declared, plus all accrued and unpaid dividends.

LIQUIDATION PREFERENCE - The holders of the preferred stock had preference in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company. The holders of Series A were entitled to a preference of $1,206.27 per share plus any accrued but unpaid dividends. The holders of Series B were entitled to a preference of $1,500 per share plus any accrued but unpaid dividends.

REDEMPTION - Preferred stock was to be redeemable at the option of the holder at any time on or after August 4, 2006. The redemption price per share was to be equal to $1,206.27 for Series A and $1,500 for Series B, plus all accrued and unpaid dividends.

ACCRETION - The Series A accumulated accretion totaled $1,010,416 and the Series B accumulated accretion totaled $483,369 prior to conversion into Common stock on March 26, 2004. Accretion was provided for accrued dividends and issuance costs.

During 2004 the Company issued stock options to directors and consultants outside of any formalized plan. These options, of which none had been exercised at December 31, 2004, are exercisable within a ten-year period from the date of the grant, and vest at various intervals with all options being fully vested within three years of the grant date. The options are not transferable except by will or domestic relations order. The option price per share is not less than the fair market value of the shares on the date of the grant. These options all have an exercise price of $.01 and the weighted average remaining contractual life of these options is 9.75 years at December 31, 2004.

Stock option activity for officers, directors and consultants outside of any formalized plan for the three-year period ended December 31, 2004 is as follows:

	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE FAIR VALUE
Balance, January 1, 2004	--	$ --	
Options granted	1,286,000	0.01	$0.003
Options forfeited	(407,222)	0.01	
Balance December 31, 2004	878,778	$0.01	
Exercisable at December 31, 2004	399,333	$0.01	

Total non-cash compensation expense related to the above-mentioned option grants was $323, for the year ended December31, 2004. Options granted to consultants outside of any formalized plan, which are fully vested and exercisable, total 83,778 at December 31, 2004.

4. STOCKHOLDERS' EQUITY (CONTINUED)

Stock Option Plan - The Company's incentive stock option plan (the "Plan"), established in August 2000, provides for grants of options to purchase up to 73,873 post split shares of common stock. Grants may be in the form of incentive stock options or nonqualified options. The Board of Directors determines exercise prices and vesting periods on the date of grant. Options generally vest annually over three years and expire on the tenth anniversary of the grant date. No options were exercised or cancelled during 2004, 2003 or 2002.

Stock option activity for the 2000 Stock Option Plan for the three-year period ended December 31, 2004 is as follows:

<TABLE>

	NUMBER OF OPTIONS	WEIGHTED-EXERCISE PRICES RANGE	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE FAIR VALUE	WEIGHTED AVERAGE REMAINING LIFE
Balance, January 1, 2002	3,993		$ 5.11		
Options granted	22,818		7.01	$ 0.82	
Balance December 31, 2002	26,811	$1.70 - $7.01	6.81		
Options granted	2,781	$0.70	7.01	$ 0.50	
Options granted	44,281	$7.01	0.70	$ 0.25	
Balance December 31, 2003	73,873	$.70 - $7.01	3.16		
Balance December 31, 2004	73,873	$.70 - $7.01	$ 3.16		8 Years

Exercisable at December 31, 2004	34,900	$ 4.13
Exercisable at December 31, 2003	10,261	$ 6.52
Exercisable at December 31, 2002	1,806	$ 4.21

</TABLE>

Included in options granted for the years ended December 31, 2003 and 2002 are options granted to consultants to purchase 47,062 and 22,818 shares, respectively, of the Company's common stock. The options provide for 33.3% vesting each year. The related compensation expense is estimated based on fair value pursuant to SFAS No. 123 and EITF 96-18 until the final measurement date, which is the earlier of performance completion or vesting. Accordingly, the total amount of compensation expense to be recognized for stock options granted to consultants will increase or decrease over the vesting/performance period based on changes in the fair value of such stock options. The fair value of such option grants was $.25 - $.50 per common share during 2003 and $.77 - $.91 per common share during 2002.

Total non-cash compensation expense related to the above-mentioned option grants, as well as options granted to an employee in 2000 at less than fair market value, was $7,545, $7,805 and 5,116 for the years ended December31, 2004, 2003 and 2002, respectively. Options granted to consultants from the 2000 plan, which are fully vested and exercisable, total 20,755 at December 31, 2004.

4. STOCKHOLDERS' EQUITY (CONTINUED)

The fair value of the options on their grant date was measured using the Black-Scholes option-pricing model. The key assumptions used to apply this option pricing model were a risk-free interest rate of approximately 3.95% and 4.81% for 2004, 3.92% and 4.4% for 2003 and $4.52% and 4.83% for 2002, a 10-year expected life of option grants, a 0% expected dividend payment rate, and 0% assumed volatility. The option-pricing model used was designed to value readily tradable stock options with relatively short lives. However, management believes that the assumptions used to value the options and the model applied yield a reasonable estimate of the fair value of the grants made under the circumstances.

RESERVED SHARES - At December 31, 2004, 73,873 shares of common stock were reserved for issuance upon exercise of options granted under the 2000 plan and 1,500,000 shares of common stock were reserved for issuance upon exercise of options granted outside of any formal plan.

5. INCOME TAXES

The Company's deferred tax assets consisted of the following at December 31:

<TABLE>

	2004	2003	2002
Net operating loss carryforwards	$ 2,068,000	$ 2,051,000	$ 1,874,000
Depreciation and amortization	8,000	8,000	5,000
License fee	99,000	99,000	99,000
Accrued compensation	360,000	179,000	191,000
Accrued interest	320,000	112,000	52,000
Tax credits	380,000	269,000	256,000
Capital loss carryforward	380,000	380,000	380,000

Gross deferred tax asset	3,615,000	3,098,000	2,857,000
Valuation allowance	(3,615,000)	(3,098,000)	(2,857,000)
Net deferred tax asset	$ -	$ -	$ -

</TABLE>

Because of the Company's limited operating history, management has provided a 100% reserve against the Company's net deferred tax assets for all periods. Management provided a valuation allowance because it determined that it was more likely than not that the net operating loss carryforwards would not be utilized in the future. The valuation allowance amounted to $2,509,000 at December 31, 2001. As of December 31, 2004, the Company had net operating loss carryforwards of approximately $5,380,000, which begin to expire in 2011 for federal purposes. The Company's research and development credits are available to offset future federal income tax, subject to limitations for alternative minimum tax. The research and development credit carryforwards begin to expire in 2011.

The deferred tax asset for license fee relates to the portion of the license fees received in prior years subject to tax for income tax purposes but deferred for financial statement purposes. The capital loss carryforward relates to the loss recorded in the current and prior years for the Company's investment in Phytera.

Under the provisions of the Internal Revenue Code, certain substantial changes in the Company's ownership may have limited, or may limit in the future, the amount of net operating loss carryforwards which could be utilized annually to offset future taxable income and income tax liabilities. The amount of any limitation is determined based on the Company's value and long-term tax-exempt rate on the date of an ownership change.

6. NOTES PAYABLE TO STOCKHOLDERS

Since 1996, the Company has relied on private investors to fund its operations. Periodically, these investors have advanced monies to the Company in return for notes payable.

The Company had unsecured demand notes of $817,931, $798,931 and $948,931 at December 31, 2004, 2003 and 2002, respectively. These notes bear interest at 6%. At December 31, 2004, 2003 and 2002, these notes included $521,931 of converted accrued compensation owed to officers and $100,000 of converted accrued consulting expense owed to a stockholder of the Company.

The Company had a secured note of $100,000 at December 31, 2004. This note bears interest at 6% and is repayable upon the successful completion of a proposed "recapitalization" which raises at least $3 million.

On May 25, 2004 the Company obtained a bridge loan in the amount of $100,000 from a stockholder. This loan bears interest at 15% and becomes due and payable on May 25, 2005.

On November 25 2003 the Company obtained $1,000,000, from certain stockholders, in new secured debt financing through the issuance of "bridge loans," bearing interest at 15% and maturing on May 25, 2005. The Company received cash proceeds of $900,000 and converted an existing $100,000 secured demand note payable as a result of issuing this new debt. The principal amount of the notes may be converted to common stock at $1.00 per share, at the note holder's option. If the market value of the stock falls below $2.00 per share the conversion price is adjusted downward to a price equal to one half of the market value of the stock, with a minimum conversion price of $.38 per common share.

7. COMMITMENTS

LEASE COMMITMENT - In November 2003 the Company moved its office and began renting its new office space under sublease agreement with a third party. As of December 31, 2004 the Company is a tenant-at-will under this agreement. Monthly rent under this agreement is $3,000. Prior to moving in 2003 and for all of 2002, the Company leased its office space under a sublease agreement, as the lessee, with a related party. An officer of Novelos owns common shares in, and is a member of the Board of Directors of, the lessor. Rent expense was $36,100, $100,292, $114,370 and $536,254 in 2004, 2003, 2002 and cumulative since inception (June 21, 1996), respectively. As of December 31, 2004, 2003 and 2002, amounts payable to this related party totaled $76,272, $76,272 and $63,203, respectively.

During 1999, the Company also entered into a capital lease agreement for office equipment. The lease calls for payments through July 2005, including interest. Future minimum lease obligations at December 31, 2004 are as follows:

	CAPITAL LEASE
2005	$1,924
Less amounts representing interest	84
Present value of lease obligation	1,840
Less current portion	1,840
Long-term portion	$ -

8. RELATED-PARTY TRANSACTIONS AND COMMITMENTS

During 2001, the Company entered into a non-cancelable agreement with a related party in which the related party will perform research and development activities for the Company, beginning February 2002, in exchange for fixed payments of $59,950 in 2002 and $5,450 in 2003. The agreement terminated in February 2003.

The Company has engaged a stockholder of the Company to perform research and development. During 2004, 2003, 2002 and cumulative since inception (June 21, 1996), expenses were incurred in the amounts of $39,340, $9,244, 126,677 and $1,998,227, respectively. As of December 31, 2004, 2003 and 2002, $1,185,321, 1,185,321 and $1,176,077, respectively, were payable to the stockholder and are included in accounts payable.

The Company has engaged another stockholder of the Company to perform consulting services. During 2002 and cumulative since inception (June 21, 1996), expenses were incurred in the amounts of $3,998 and $95,095, respectively. As of December 31, 2004 no amounts were payable to the stockholder.

The Company is obligated to ZAO Bam, a related party, under a royalty and technology transfer agreement. The Company is required to make royalty payments of 1.2% of net sales of ZAO BAM patented products, which have been assigned to the Company by ZAO Bam, and $2 million payments for any new drugs approved and assigned to the Company by ZAO Bam. These new drug payments are due eighteen months following FDA approval of such drug.

The Company has also agreed to pay ZAO BAM 12% of all license revenues received in excess all NOVELOS' expenditures associated therewith, including but not limited to preclinical and clinical studies, testing, FDA and other regulatory agency submission and approval costs, general and administrative costs, and patent expenses, provided however that such payment be no less than 3% of license revenue received by Novelos no

matter how high the expenses associated therewith.

The Company is also obligated to pay another related party an amount not to exceed $20 million, limited to 10% of the Company's earnings before interest and taxes (the "EBIT payment"); these obligations resulted from the assignment of the exclusive intellectual property and marketing rights to a drug development platform technology, worldwide, excluding Russia and the Commonwealth of Independent States. The royalty and EBIT payments will be recorded as royalty expense when incurred. The payment for any new technologies will be accounted for as purchased technology and either capitalized or expensed at the time of payment, depending on the stage of completion of the related products.

9. SUBSEQUENT EVENTS

During January 2005 the Company received $400,000 from a stockholder in exchange for a secured note payable to this stockholder. The note bears interest at 6% and is repayable upon the successful completion of a proposed "recapitalization" which raises at least $3 million. This loan is in addition to a secured loan of $100,000 received from this stockholder in December 2004 (Note 6). In exchange for these loans and this stockholder's commitment to provide additional financing of up to $500,000 through August of 2005, this stockholder is to receive approximately 10 million shares of the Company's common stock representing ownership of fifty percent of the post recapitalization outstanding stock of the Company.

* * * * * *