

**IN THE MATTER OF THE
SECURITIES ACT R.S.O., c. S. 5, as amended**

AND

**DISCOVERY BIOTECH INC.
AND GRAYCLIFF RESOURCES INC.**

**STATEMENT OF ALLEGATIONS
OF THE ONTARIO SECURITIES COMMISSION**

Staff of the Ontario Securities Commission make the following allegations:

Background

1. Discovery Biotech Inc. (“Discovery”) is an Ontario Corporation with offices in Toronto and Burlington, Ontario.
2. Graycliff Resources Inc. (“Graycliff”) is an Ontario Corporation with offices in Toronto, Ontario.
3. Discovery common shares were being sold by persons who are the employees or agents of Discovery and/or Graycliff.
4. Discovery common shares were being sold to members of the public in purported reliance upon Rule 45-501, which allows for exempt distributions.
5. Agents or employees of Discovery and/or Graycliff were making certain representations to potential purchasers respecting the Discovery common shares, and in particular:

- a) that listing of Discovery common shares on NASDAQ would occur in the future;
 - b) that Discovery was pursuing United States Food and Drug Administration (“FDA”) approval for the Discovery Breastscan device;
 - c) that the value of Discovery common shares would be higher in the future;
 - d) that sales of Discovery common shares could be made to persons who are not accredited investors in accordance with Rule 45-501.
6. The sales of Discovery common shares were being made in breach of sections 25 and 53 of the Securities Act, R.S.O. 1990 c.S.5.
 7. The representations made to members of the public, as described in paragraph 5, in respect of the future listing of Discovery common shares and their future value are prohibited by s. 38 of the *Securities Act*.

Conduct Contrary to the Public Interest

8. The conduct of Discovery, its employees and agents and the conduct of Graycliff, its employees and agents is contrary to the public interest.
9. Such additional allegations as Staff may advise and the Commission may permit.

Dated at Toronto this 10th day of June, 2003