UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

X Annual report pursuant to Section 13 or 15(d) of the Securities
- --- Exchange Act of 1934 for the fiscal year ended December 31, 1997.

Transition report pursuant to Section 13 or 15(d) of the Securities
- --- Exchange Act of 1934 for the transition period from _____ to _____.

Commission File Number O-8092

OXIS International, Inc.
A Delaware corporation
I.R.S. Employer Identification No. 94-1620407
6040 N. Cutter Circle, Suite 317
Portland, OR 97217
Telephone: (503) 283-3911

Securities registered pursuant to Section 12(b) of the Act:

NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.50 par value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO
--- ---

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Aggregate market value of the voting stock held by nonaffiliates of the Registrant as February 28, 1998 (assuming conversion of all outstanding voting preferred stock into common stock) was $17,862,000.

Number of shares outstanding of Registrant's common stock as of February 28, 1998: 28,775,324 shares.

Certain of the information required by Part III of this Form 10-K is incorporated by reference from a portion of the Company's Proxy Statement for 1998 Annual Meeting of Stockholders.

CONTENTS

<TABLE>
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PART I

ITEM 1. BUSINESS.

INTRODUCTION

Certain of the statements contained in this report are forward-looking statements based on current expectations which involve a number of uncertainties. The events described herein may not occur due to risks inherent in research and product development, the uncertainty of market acceptance of Company products, the possible inability to obtain financing, and other factors. Accordingly, the Company's future activities may differ materially from those projected in the forward-looking statements.

OXIS International, Inc., ("OXIS" or the "Company"), a Delaware corporation, is a leader in the discovery, development and commercialization of therapeutic and diagnostic products to diagnose, treat and prevent diseases of oxidative stress. Oxidative stress occurs when the concentration of free radicals and reactive oxygen species ("ROS"), highly reactive molecules produced during oxidative processes, exceed the body's antioxidant defense mechanisms.

In February 1998, the Company's Board of Directors approved the restructuring of the Corporation into two wholly owned subsidiaries, OXIS Health Products, Inc. and OXIS Therapeutics, Inc. Although the restructuring has not yet been completed, these subsidiary corporations have been formed. The Company's international diagnostic business which markets research and commercial diagnostic assays and fine chemicals to research and clinical laboratories and other customers will be carried out by OXIS Health Products, Inc. The Company's drug discovery business focused on new drugs to treat diseases associated with tissue damage from free radicals and ROS will be carried out by OXIS Therapeutics, Inc. The Company is in the process of transferring assets and liabilities to the new subsidiary corporations.

Effective March 18, 1998, Timothy C. Rodell, M.D., formerly Chief Operating Officer of OXIS International, Inc., was appointed President of OXIS

Therapeutics, Inc.; and Humberto V. Reyes, formerly Senior Vice President of OXIS International, Inc. was appointed President of OXIS Health Products, Inc. At the same time, Anna D. Barker, Ph.D., resigned as President and Chief Executive Officer of OXIS International, Inc., and Ray R. Rogers, Chairman of OXIS International, Inc., also became its Chief Executive Officer.

The Company has targeted its drug discovery and development programs to address diseases that have underlying pathologies based on oxidative stress, and for which there is currently no optimum treatment. The Company is developing lead molecules from three series of small molecular weight antioxidants. The first of these lead molecules has entered a Phase II clinical trial, and the second and third are in preclinical development.

The Company derives current business revenues from its diagnostic assays and two fine chemicals, ergothioneine and bovine superoxide dismutase ("bSOD"). The Company's diagnostic products portfolio includes fourteen commercial therapeutic drug monitoring ("TDM") assays based on fluorescence polarization immunoassay technology ("FPIA"); twelve drugs of abuse assays which utilize an enzyme-multiplied immunoassay technique ("EMIT"); and eleven assays to measure oxidative stress.

The Company's thirteen FDA-cleared therapeutic drug monitoring ("TDM") assays are sold to clinical and reference laboratories, primarily through a network of international distributors. The assays for markers of oxidative stress are sold through international distribution and catalog sales to basic researchers and clinicians working in oxidative stress research. The Company's TDM assays are designed to run on Abbott's TDx(R) and TDx/FLx(R) instruments, while the enzyme immunoassays and colorimetric assays run on a variety of commercially available instruments.

Through a business acquisition completed December 31, 1997, the Company now develops, manufactures and sells a variety of medical instruments.

The Company has invested significant resources to build an early and substantial patent position on both its antioxidant therapeutic technologies and selected oxidative stress assays.

The Company's corporate offices are located in a 15,000 sq. ft. facility at 6040 N. Cutter Circle, Suite 317, Portland, OR 97217. Research operations of the Company are located outside of Paris at Z.A. des Petits Carreaux, 2, av. des Coquelicots, 94385 Bonneuil-Sur-Marne, Cedex, France. Facilities for development and manufacturing medical instruments are located at 55 Steam Whistle Drive, Ivyland, PA 18974.

ACQUISITIONS/MERGERS

In September 1994, the Company acquired all of the capital stock of Bioxytech S.A. located in Paris, France, and merged with International BioClinical, Inc. ("IBC"), an Oregon corporation, and changed its name from DDI Pharmaceuticals, Inc. to OXIS International, Inc. Bioxytech S.A. was subsequently renamed OXIS International S.A. ("OXIS S.A."). At the time of the acquisition, OXIS S.A.'s research and development programs were focused on the synthesis of novel antioxidant therapeutic molecules and assays to measure markers of oxidative stress. OXIS S.A. was also selling six research assays for measuring specific markers of oxidative stress. IBC was selling thirteen therapeutic drug monitoring ("TDM") assays at the time of its acquisition by the Company. It was also developing one additional TDM assay which was completed during 1995.

In July 1995, OXIS acquired Therox Pharmaceuticals, Inc. ("Therox"), a Delaware corporation, through an exchange of stock. Therox was merged into a subsidiary of the Company. Therox was founded in 1994 by S.R. One, Limited (the venture investment arm of SmithKline Beecham) and Brantley Venture Partners II, L.P. Therox was focused on the development of

membrane active antioxidants and molecules that combine antioxidant activity with other key therapeutic effects. The acquisition provided the Company with complimentary therapeutic technologies, seven patents and several

relationships with university scientists.

Prior to the acquisitions of Bioxytech S.A. and IBC in 1994, substantially all of the Company's research and development efforts involved superoxide dismutase ("SOD") and poly-ethylene glycol ("PEG"). The 1994 and 1995 acquisitions substantially expanded the Company's research and development capabilities in the areas of synthetic chemistry, biochemistry and diagnostic assay development.

On December 31, 1997, the Company acquired all of the issued and outstanding capital stock of Innovative Medical Systems Corp. ("IMS"), a Pennsylvania corporation pursuant to a transaction whereby the Company acquired all of the outstanding stock of IMS in exchange for 1,000,000 shares of the Company's common stock issued immediately and additional common shares to be issued. IMS develops, manufactures, markets and sells medical instruments, including a laboratory analyzer that is being modified to automate the Company's assays to measure markers of oxidative stress.

RESEARCH AND DEVELOPMENT

The Company's research and development programs with respect to its therapeutics business are focused primarily on the discovery and development of new therapeutic molecules to combat diseases related to damage from oxidative stress. OXIS believes that the control or elimination of oxidative stress represents an important but largely untapped area for drug development. The Company's technical approach is to supplement the natural defense systems through unique, synthetic molecules which, because of their pharmacological and/or distribution properties, will reduce oxidative stress in target cells and tissues.

Because of the wide range of diseases and organ systems affected by oxidative stress and its consequences, no single compound or family of compounds is likely to be appropriate for all indications. For this reason, OXIS is developing three families of molecules which are targeted to different disease indications.

<TABLE>
<CAPTION>

GPx Mimics	Lipid Soluble	L-ergothioneine
BXT-51072	Antioxidants	and analogs
<S>	<C>	<C>
Inflammatory bowel disease	Neurodegenerative	Acute respiratory distress syndrome
Acute respiratory distress syndrome	Alzheimer disease	Transplant
Restenosis	Parkinson disease	AIDS
Asthma	Arthlerosclerosis	Nutrition
	Skin	Cosmetic

</TABLE>

As shown in the above diagram, the Company is targeting acute and subacute inflammatory diseases with a family of small molecular weight mimics of the enzyme glutathione peroxidase ("GPx"). These molecules have been demonstrated to both block direct oxidative damage in vitro, to block nuclear factor kappa B ("NFkB") activation at low nanomolar concentrations and to block the production of numerous cytokines and other molecules which are under the control of NFkB. These molecules have also been shown in animal models to block endotoxic shock, restenosis and inflammatory bowel disease.

The second series of molecules is designed to mimic the salutary activity of vitamin E while addressing its limitations as a pharmaceutical. Vitamin E is the predominant natural lipid soluble antioxidant in animals and, as such, has a primary role in the protection of cell membranes from damage from ROS. This role is critical in cardiovascular and central nervous system disease. The limitations of vitamin E as an antioxidant are its potency, which is very low, and its kinetics of membrane incorporation. The OXIS lipid soluble antioxidants are twenty to forty fold more potent than vitamin E as antioxidants and are incorporated into membranes a great deal more quickly. These molecules are currently targeted for development in the area of cardiovascular and neurodegenerative disease.

The third series of molecules are designed around a natural antioxidant known as L-ergothioneine. L-ergothioneine itself is a sulfur-containing

antioxidant, related to glutathione, which is a natural product and which is contained in tissues in the body subjected to significant oxidative stress such as the lens of the eye, the liver and red blood cells. Unlike glutathione, l-ergothioneine is stable in aqueous solutions and is well absorbed orally. Humans do not synthesize l-ergothioneine and therefore require it in their diet. It has been demonstrated to be depleted in the lens of the eye in patients with cataracts, and the company is currently investigating its levels in a number of other disease states including AIDS. OXIS holds a patent for what it believes to be the only commercially feasible synthetic process for pure l-ergothioneine. In addition, Company scientists have synthesized a series of proprietary analogs of l-ergothioneine which are more potent and which can be developed in areas where a proprietary position on natural l-ergothioneine is not available.

CURRENT PROJECT STATUS

BXT-51072 AND GPX MIMICS. BXT-51072 is the lead molecule from the Company's GPx mimics program. In vitro BXT-51072 blocks the direct toxicity of oxidative stress and has also been shown to inhibit the activation of NFkB and the production of numerous inflammatory mediators including tumor necrosis factor ("TNF"), interleukins 6 and 8 (Il-6 and Il-8) and the expression of a number of cellular adhesion molecules. In animal models, BXT-51072 has shown that it protects against toxicity from endotoxin, blocks the clinical manifestations of inflammatory bowel disease and prevents restenosis following balloon angioplasty.

STRUCTURE OF BXT-51072

(GRAPHIC APPEARS HERE)

BXT-51072 entered human clinical development and completed a Phase I clinical trial in late 1996. In that trial, it showed no toxicity and was found to be well absorbed orally.

BXT-51072 is currently in Phase II clinical trials for ulcerative colitis. The first part of this Phase II study, which will investigate safety, pharmacokinetics, and activity is expected to be completed in the first half of 1998 and data from a second, double-blind, placebo controlled efficacy phase should be available by early 1999.

The Company is also in the process of initiating a small Phase IB clinical trial in asthma. Assuming adequate resources, this trial could be completed in 1998.

LIPID SOLUBLE ANTIOXIDANTS (LSAS). These molecules are currently in preclinical development for cardiovascular disease and neurodegenerative disease. The Company has targeted a late 1998 to early 1999 Investigational new drug application for one of these molecules.

L-ERGOTHIONEINE AND ANALOGS. L-ergothioneine is currently being investigated in animals for acute respiratory distress syndrome ("ARDS"). Acute and subacute, non-GLP toxicity studies have been completed and scale-up has proceeded to the 1 kg level.

L-ergothioneine, as a natural product, is being developed by the Company for use in cosmetics, food preservation and dietary supplementation.

In addition to its research and development programs in synthetic antioxidants, OXIS also has conducted research programs in the development of oxidative stress assays, bovine superoxide dismutase and poly-ethylene glycol technology. The status of these programs are as follows:

OXIDATIVE STRESS ASSAYS. The Company has developed eight research assay kits for markers of oxidative stress that are designed to ultimately facilitate diagnosis and optimize therapy of free radical-associated diseases. These assays also provide developmental synergy for the pharmaceutical research and development programs by facilitating the assessment of oxidative stress in laboratory studies and in patients. The Company intends to develop additional assays for key markers of oxidative stress as part of its ongoing research and development efforts in oxidative stress diagnostics. The Company is in the

process of developing an instrument system to support certain of the assays for markers of oxidative stress.

BOVINE SUPEROXIDE DISMUTASE (BSOD). The Company also has extensive experience in developing, manufacturing and marketing bovine superoxide dismutase ("bSOD"). Bovine superoxide dismutase has been previously studied in numerous clinical trials by OXIS and other companies. OXIS is not currently pursuing an active research program in bSOD, but supplies bulk bSOD for human use and sells an injectable dosage form of the drug for veterinary applications under the registered trademark Palosein(R).

POLY-ETHYLENE GLYCOL TECHNOLOGY (PEG). The Company is not currently pursuing an active research program in PEG technology, but this technology is still available for license or sale. During 1997 the Company entered into a nonexclusive licensing arrangement giving Enzon, Inc. the right to use certain of its PEG technologies.

Overall, the Company has an extensive portfolio of patents that cover its synthetic antioxidant therapeutic molecules, superoxide dismutase, polyethylene glycol technology, assays for markers of oxidative stress and fine chemicals. The Company currently holds fifteen U.S. patents and nine French patents and has filed for seven additional U.S. patents.

The Company's overall research and development strategy is to discover and advance its therapeutic molecules through early stage clinical trials to demonstrate efficacy in the target disease populations. The Company expects to seek strategic pharmaceutical partners for later stage clinical development and commercialization of its therapeutics, but, to date, has not entered into any such partnership and no assurances can be given that it will enter into any such partnership.

Much of the Company's success depends on its potential products which are in research and development and from which no material revenues have yet been generated. The Company must successfully partner, develop, obtain regulatory approval for and market or sell its potential therapeutic products to achieve profitable operations. No assurances can be given that the Company's product development efforts will be successfully competed, that required regulatory approvals will be obtained, or that any such products, if developed and introduced will be successfully marketed. Furthermore, no assurances can be given that the Company will be able to raise the working capital necessary to continue to advance its research and development programs. Competition in the pharmaceutical industry is intense, and no assurances can be given that OXIS' competitors will not develop technologies and products that are more effective than those being developed by OXIS.

Research and development expenses were $4,319,000, $4,908,000 and $4,299,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

PRODUCTS

DIAGNOSTIC PRODUCTS

Revenues from sales of the Company's diagnostic products comprised 49% of its revenues in both 1997 and 1996, and 44% of its 1995 revenues.

OXIDATIVE STRESS RESEARCH PRODUCTS. The Company has twenty-four research products available for sale that include:

- Assays for markers of oxidative stress
- Spin traps
- Antibodies
- Proteins
- Specialty chemicals
- Controls

The primary technology foundation for the research product line are eleven assay test kits which measure key markers in free radical biochemistry (markers of oxidative stress). Specifically, these assays measure levels of antioxidant protection, oxidative alterations, and pro-oxidant activation of

specific white blood cells. OXIS' research assays include:

SOD-525 (superoxide dismutase)
GSH-400 (reduced glutathione)
pl.GPx-EIA (human plasma-specific glutathione peroxidase)
LPO-586 (lipid peroxidation)
MPO-EIA (human myeloperoxidase)
Lactoferrin-EIA (human lactoferrin)
c-GPx-340 (cellular glutathione peroxidase)
GR-340 (glutathione reductase)
8-Isoprostane (8 epi-prostagladin F2alpha)
Nitric Oxide
Nitric Oxide, Non enzymatic

These assay kits utilize either chemical (colorimetric) or immunoenzymatic (EIA) reactions that can be read using laboratory spectrophotometers and microplate readers, respectively. The Company's assays offer advantages over conventional laboratory methods, including ease of use, speed, specificity and accuracy.

The assays for markers of oxidative stress are currently being sold to researchers in Europe, Japan and the United States, primarily through distributors. The Company estimates that there are more than 3,500 scientists and clinicians who are working directly in research on free radical biochemistry, and who are potential customers for these research assays. Eight of the Company's research assays are manufactured at the facility in Portland, Oregon. The others are manufactured pursuant to private label agreements.

The Company's assays for markers of oxidative stress are generally protected by trade secrets, and to a more limited extent, patents. Seven French patent applications have been filed with respect to these assays, two of which have resulted in the issuance of patents. The oxidative stress assays are sold under the registered trademark "Bioxytech(R)".

Several companies other than OXIS have developed assays for markers of oxidative stress and offer assays that compete directly with the Company's assays for superoxide dismutase, cellular glutathione peroxidase, reduced glutathione, lipid peroxidation and glutathione reductase.

THERAPEUTIC DRUG MONITORING (TDM) ASSAYS. The Company sells fourteen TDM assays which are based on FPIA (fluorescent polarization immunoassay) technology. These products are sold under the trade name INNOFLUORO(TM). The Company's test menu encompasses approximately 90% of the routine TDM tests performed by clinical and reference laboratories worldwide. These assays are designed for use on the Abbott Laboratories TDx(R) and TDx/FL/x/(R) analyzers. In May 1997, the Company launched in the U.S. a new anti-convulsant assay for the measurement of the drug TOPAMAX(R) developed and marketed by McNeil Pharmaceutical. TOPAMAX(R) is one of the newer classes of drugs developed to treat difficult cases of epilepsy.

The TDM products are sold through a combination of direct customer sales and distributors in the United States, and through a network of distributors outside the United States, principally in Europe. The TDM assays are manufactured at the Company's facility in Portland, Oregon.

The Company has one pending U.S. patent application, in addition to relying on trade secrets, know-how and trademark laws to protect its TDM assays. The Company's TDM assays have been sold under the trade name INNOFLUOR(TM) since the mid-1980s.

Six major diagnostic companies dominate the therapeutic drug monitoring market. Each of these six companies provides a range of both instrumentation and assays to clinical laboratories. Of these, Abbott Laboratories holds the largest market share. OXIS competes most directly with Abbott Laboratories, because OXIS' assays are designed to be run on Abbott's analyzers. The Company competes based on high product quality, an aggressive pricing strategy and technical services. Abbott Laboratories and certain of the Company's other competitors have substantially greater financial and other resources than the Company and there can be no assurances that the Company can effectively compete with Abbott Laboratories and such other competitors.

All of the research products and TDM assays are manufactured in batches in anticipation of customer orders. Orders are generally filled within a few days; therefore, the Company does not have any significant backlog of orders for its diagnostic products. The Company believes that adequate supplies of raw materials are either currently on hand, available from commercial suppliers or available through development on a custom basis by commercial contractors, as needed.

THERAPEUTIC PRODUCTS

Revenues from sales of bulk bSOD, royalties on bSOD products sold by licensees, and sales of Palosein(R), the Company's veterinary bSOD product, comprised approximately 42% of the Company's total revenues in 1997, 50% in 1996 and 48% in 1995.

BOVINE SOD (BSOD) PRODUCTS. Commercial-scale manufacture and quality control of bulk bSOD, as well as subsequent quality control and processing of United States Department of Agriculture-inspected edible beef liver into highly purified bulk bSOD requires a complex, multi-step process. OXIS has significant knowledge regarding the manufacture of bSOD that is protected through trade secrets and proprietary know-how.

The Company has an agreement with Diosynth B.V., a Dutch contract manufacturer of pharmaceutical ingredients, to manufacture bulk bSOD and supply it to OXIS under the terms of a license based on the Company's processes. Diosynth B.V. is an affiliate of AKZO-Nobel N.V., a large, Dutch multinational chemical and health care company. The Company believes that its present source of bSOD is adequate for its near-term foreseeable needs.

With the exception of recently developed, patent protected long-acting SOD derivatives, the Company's older patents protecting the manufacture of bSOD have expired. Expiration of the Company's patents may enable other companies to benefit from research and development efforts of the Company, but such other companies would not receive the benefits of the Company's unpatented trade secrets and know-how or unpublished preclinical or clinical data. Such companies would still be required to expend considerable resources to conduct preclinical and clinical studies of their own pharmaceutical preparations of SOD to gain regulatory approval.

The Company sells bulk bSOD for human use outside the United States, but does not market dosage forms of bSOD for human use. The Company does not currently intend to seek approval for human use of bSOD in the United States for any indication, and only intends to sell bulk bSOD to the extent that there is a demand for it. Palosein(R) is OXIS' registered trademark for its veterinary brand of bSOD. Although there are other sources of bSOD and other laboratory and pilot-scale processes to produce bSOD, the Company believes that it is the only company manufacturing bSOD on a commercial scale for pharmaceutical uses.

The Company's Spanish licensee, Tedec-Meiji Farma, S.A., which distributes bSOD for human use in Spain, has been responsible for a substantial portion of the Company's revenues in recent years. Sales of bSOD to Tedec-Meiji were 31% of the Company's revenues in 1997, 39% in 1996 and 16% in 1995. No assurances can be given that the Company will continue selling bSOD to Tedec-Meiji or any other party.

MEDICAL INSTRUMENTS

With the acquisition of IMS, effective December 31, 1997, the Company acquired staff, facilities and equipment to develop and manufacture medical instruments. Instruments currently being manufactured by IMS include tissue processors, automated stainers and a hemodynamic monitoring system. IMS generally manufactures product to fill specific orders, and, as of December 31, 1997, had a backlog of orders of approximately $1,400,000. While the Company believes such orders to be firm, orders from customers are generally cancelable.

EMPLOYEES

As of December 31, 1997, the Company had 85 employees (65 in the United States and 20 in France). Employees of the Company's French subsidiary are covered by a government-sponsored collective bargaining agreement. None of the United States employees are subject to a collective bargaining agreement. The Company has never experienced a work interruption.

FOREIGN OPERATIONS AND EXPORT SALES

For information regarding the Company's foreign operations and export sales, see Note 9 to the consolidated financial statements.

ITEM 2. PROPERTIES.

The Company occupies, pursuant to leases expiring in 1998, office and laboratory space in Portland, Oregon and near Paris, France.

IMS, acquired by the Company on December 31, 1997, owns a 45,000 square foot building on approximately four acres located near Philadelphia, Pennsylvania. This facility houses the Company's medical instrument development and manufacturing business. The land and building are subject to a mortgage securing a note in the amount of $1,535,000.

Although the premises currently occupied are suitable for the Company's present requirements, the Company believes that other equally suitable premises are readily available.

ITEM 3. LEGAL PROCEEDINGS.

There are no material legal proceedings to which the Company is a party or to which any of its property is subject. The Company has received correspondence from a representative of the holder of its Series D Preferred Stock, stating that the Series D Preferred holder is entitled to certain interest and other payments and other rights with respect to the remaining Series D Preferred Stock which is not convertible into common stock.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders of the Company during the fourth quarter of the year ended December 31, 1997.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS.

The Company's common stock is traded on The NASDAQ Stock Market and the French stock market, Le Nouveau Marche under the symbol OXIS.

Recent quarterly high and low prices of the Company's common stock on the NASDAQ Stock Market are as follows:

<TABLE>
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	1997				1996			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
High	29/32	25/32	1 3/8	1 17/32	1 25/32	2 1/8	2 11/16	2
Low	5/16	7/16	19/32	29/32	1 7/32	1 1/2	1 7/16	1 1/2

</TABLE>

The Company has an estimated 6,800 stockholders, including approximately 2,700 shareholders who have shares in the names of their stockbrokers. The Company utilizes its assets to develop its business and, consequently, has never paid

a dividend and does not expect to pay dividends in the foreseeable future.

The Company has been notified by the NASDAQ Stock Market, Inc. that, because the bid price of its common stock is less than $1.00, its common stock is currently not in compliance with the NASDAQ Marketplace Rule 4450 (a) (5) relating to the NASDAQ minimum bid price requirements. The Company has been informed by the NASDAQ that it has until May 28, 1998, to regain compliance with this standard. The Company may regain compliance if the bid price for its common

stock closes at or above the minimum requirement for at least ten (10) consecutive trade days. If the security does not regain compliance within 90 days, NASDAQ will issue a delisting letter which will identify the review procedures available to the Company. The Company may request a review at or before that time, which, the NASDAQ has stated, will stay delisting until a hearing occurs. If the common stock of the Company ceases to be listed on the NASDAQ, such failure to be listed could have a material adverse effect on the transferability of the Company's common stock, and may have a material adverse effect on the value of the common stock as well.

ITEM 6. SELECTED FINANCIAL DATA.

<TABLE>
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FOR YEARS ENDED DECEMBER 31:	1997	1996	1995	1994	1993
Total Revenues/1//	$ 5,059,000	$ 4,867,000	$ 5,136,000	$ 3,470,000	$ 3,044,000
Net loss	$(5,151,000)	$(5,992,000)	$(8,892,000)/2//	$(5,567,000)/3//	$(1,485,000)/4//
Net loss per share - basic	$ (.23)	$ (.47)	$ (.82)/2//	$ (.88)/3//	$ (.30)/4//

<CAPTION>

AS OF DECEMBER 31:	1997	1996	1995	1994	1993
Total assets	$12,575,000	$ 7,997,000	$ 9,870,000	$11,194,000	$ 3,124,000
Long-term obligations	$ 1,570,000	$ 2,000	$ 1,332,000	$ 376,000	--
Common shares outstanding	28,596,320	13,790,736	12,124,423	9,322,762	4,982,670

</TABLE>

1/ Earned interest not included in revenue.
--
2/ Includes a charge of $3,329,000 ($.31 per share) for the write off of
-- certain technology of an acquired company.
3/ Includes a charge of $3,675,000 ($.58 per share) for the write off of
-- certain technology of acquired companies.
4/ Includes a charge of $1,531,000 ($.31 per share) for control contest
-- expense.

As explained under the caption "ACQUISITIONS" in Management's Discussion and Analysis of Financial Condition and Results of Operations below, the Company made significant acquisitions during 1994, 1995 and 1997 that affect the comparability of the amounts reflected in the table above.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

ACQUISITIONS

In September 1994, the Company significantly increased its scientific and

technical staff, patent application portfolio, current product offerings, research and development programs, research and manufacturing facilities and its customer base by acquiring Bioxytech S.A. (now "OXIS S.A.") and International BioClinical, Inc. ("IBC") (together the "1994 acquired businesses"). IBC was merged into the Company. OXIS S.A. operates as a subsidiary of the Company.

In July 1995, the Company acquired Therox Pharmaceuticals, Inc. ("Therox") through an exchange of stock. Therox was merged into a wholly-owned subsidiary of the Company. The acquisition of Therox provided the Company with a technology portfolio complementary to its novel therapeutics for treatment of free radical associated diseases together with university relationships and seven patents.

On December 31, 1997, the Company acquired Innovative Medical Systems Corp. ("IMS"). IMS develops, manufactures, markets and sells medical equipment.

The acquisitions of all four companies described above were completed through the exchange of stock and were accounted for as purchases; accordingly, the acquired assets and liabilities were recorded at their estimated fair values as of the dates of the acquisitions.

Because the acquisitions have been accounted for as purchases, the Company's consolidated results of operations include the operating results of the acquired businesses from the dates of acquisition only. Therefore, the results of operations of the 1994 acquired businesses are included in the consolidated statements of operations from September 7, 1994, the results of Therox's operations are included in the consolidated statements of operations from July 19, 1995, and the results of IMS' operations will only be included in the Company's consolidated statement of operations beginning January 1, 1998.

Costs relating to the acquisitions and the Company's more complex corporate structure and the increased research and development investments have placed significant demand on the Company's limited financial resources. See "Financial Condition, Liquidity and Capital Resources" below.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital position improved during 1997 to $958,000 as of December 31, 1997 from a deficit of $1,405,000 as of December 31, 1996. This increase in working capital resulted primarily from the proceeds from issuance of common stock of $6,215,000 plus $203,000 in net working capital resulting from the acquisition of IMS, offset by the effect of the net loss for 1997 ($5,151,000 less non-cash charges of $1,224,000).

Cash and cash equivalents increased from $422,000 at December 31, 1996, to $1,290,000 at December 31, 1997.

However, the Company expects to continue to report losses in 1998 as the level of expenses is expected to continue to exceed revenues. The Company can give no assurances as to when and if its revenues will exceed its expenses. The Company must raise additional capital during the first half of 1998. Failure to raise such additional capital would cause the Company to severely curtail or cease operations. For more information concerning the Company's ability to continue as a going concern, see Note 1 to the consolidated financial statements.

While the Company believes that its new products and technologies show considerable promise, its ability to realize significant revenues therefrom is dependent upon the Company's success in developing business alliances with biotechnology and/or pharmaceutical companies that have the required resources to develop and market certain of these products. There is no assurance that the Company's effort to develop such business alliances will be successful. Although the Company is currently seeking additional capital (as described below), it cannot predict the source, terms, amount, form, and/or availability of additional capital to fund its operations to the end of the current year.

As described in Note 6 to the consolidated financial statements, during 1997, the Company raised approximately $5,964,000 cash through the sale of its common stock in a public offering to European investors. Substantial

additional capital will be required during 1998 to continue operating in accordance with management's current plans. If sufficient capital is raised during 1998, the Company expects that research and development expenditures for 1998 will be similar to the 1997 amount. The Company has engaged agents to assist on a best-efforts basis to complete a private placement of its common stock. However, no assurances can be given that the Company will successfully raise the needed capital. If the Company is unable to raise additional capital during the first half of 1998, it would endeavor to extend its ability to continue in business through the substantial reduction of personnel and facility costs particularly in the therapeutics business, by slowing research and development efforts, and by reducing other operating costs; however, no assurances can be given that it will be able to do so. If the Company were to be unable to sufficiently curtail its costs in such a situation, it might be forced to seek protection of the courts through reorganization, bankruptcy or insolvency proceedings.

INFORMATION SYSTEMS AND THE YEAR 2000

As is the case with most other companies using computers in their operations, the Company is in the process of addressing the Year 2000 problem. The Company is currently engaged in a project to review computer software to determine whether its programs will consistently and properly recognize the Year 2000. Certain of the Company's systems include hardware and packaged software recently purchased from vendors who have represented that these systems are already Year 2000 compliant. The Company plans to replace certain other hardware and packaged software during the next year regardless of the Year 2000 problem.

The Company will utilize both internal and external resources to reprogram or replace and test all of its software for Year 2000 compliance, and the Company expects to complete the project in early 1999. The cost for this project is not expected to have a material effect on the Company's consolidated financial statements.

RESULTS OF OPERATIONS

REVENUES

The Company's sales for the past three years consisted of the following:

<TABLE>
<CAPTION>

	1997	1996	1995
<S>	<C>	<C>	<C>
Diagnostic and research assays	$2,495,000	$2,364,000	$2,240,000
Bovine superoxide dismutase (bSOD) for research and human use	1,559,000	1,935,000	1,817,000
Palosein(R) (bSOD for veterinary use)	542,000	480,000	555,000
Other	254,000	23,000	370,000
Total sales	$4,850,000	$4,802,000	$4,982,000

</TABLE>

Diagnostic and research assay sales volumes have increased modestly in each of the last two years, resulting in a 6% increases in sales in 1996 and 1997.

Bulk bSOD sales in 1995 included sales to Sanofi Winthrop, Inc. Sales of bulk bSOD to Sanofi Winthrop ceased in 1995, when Sanofi Winthrop announced that the clinical trial in which it was using the Company's bSOD failed to show the desired results. The decline in sales to Sanofi Winthrop has been offset by increases in sales of bSOD to Tedec-Meiji Farma S.A., the Company's Spanish licensee. The decrease in bulk bSOD sales in 1997 as compared to 1996 was due primarily to the decline in the value of the Dutch guilder (the currency in which the sales have been made) as compared to the U.S. dollar. Future sales of bulk bSOD are largely dependent on the needs of the Company's Spanish licensee which are uncertain and difficult to predict and no assurances can be given that the Company will continue to sell bulk bSOD to its Spanish licensee.

Sales of Palosein(R), which is sold primarily to veterinary wholesalers in the United States and Europe, declined from $555,000 in 1995 to $480,000 in 1996 due in part to large stocking orders by distributors in late 1995. Palosein(R) sales increased by $62,000, to $542,000 in 1997 as a result of an increase in volume, particularly in export sales.

The decrease in other sales in 1995 was principally the result of the completion of an assay development contract in early 1996. Other sales increased in 1997 primarily due to sales of ergothioneine, a fine chemical synthesized in the Company's French research facility.

COSTS AND EXPENSES

Cost of sales as a percent of product sales increased to 63% in 1996 from 59% in 1995. Cost of sales increased further in 1997, to 66% of product sales. The increases in both years were primarily caused by declines in the gross margin on bulk bSOD sales. The Company's cost of sales includes amortization of technology acquired in 1994 (amortization of $737,000 in 1995 and 1996 and $705,000 in 1997).

Research and development costs increased from $4,299,000 in 1995, to $4,908,000 in 1996. The increase of $609,000 in 1996 is the result of increased expenditures relating to preclinical development work and the Phase I clinical trial on the Company's lead therapeutics program (glutathione peroxidase mimics) of approximately $1,130,000, and a $230,000 increase in expenses of the former Therox operations, offset by a cost reduction of approximately $780,000 from the closure of the Company's Mountain View, California facility in the fourth quarter of 1995. The expenses of the Therox operations are included in the 1995 expenses starting in July 1995; the former Therox laboratory facility was closed in May 1996. Research and development costs decreased by $589,000 in 1997, to $4,319,000. This reduction in expenses was due primarily to reductions in expenses of the Company's French subsidiary.

Sales, general and administrative expenses decreased by $491,000, from $3,332,000 in 1995 to $2,841,000 in 1996, and declined by an additional $223,000, to $2,618,000 in 1997. Most of the decreases resulted from a reduction in the selling, general and administrative expenses of the Company's French subsidiary. In the third quarter of 1996 all of the Company's manufacturing operations were consolidated in the United States and the French subsidiary became a research facility. In connection with this restructuring, two administrative positions have been eliminated and certain other costs which were previously charged to administrative expenses have subsequently been classified as research and development costs. The administrative costs of the Company's French subsidiary decreased $359,000 in 1996 as compared to 1995, and decreased an additional $348,000 in 1997.

Expenses included a charge of $3,329,000 to operations for 1995, reflecting the write-off of purchased in-process technology, as described in Note 3 to the consolidated financial statements.

NET LOSS

The Company incurred net losses in 1995, 1996 and 1997, and does not expect to be profitable in the foreseeable future. The 1995 loss includes a $3,329,000 ($.31 per share) charge to operations for the write-off of purchased in-process technology related to the acquisition of Therox. Excluding this unusual charge, the Company would have incurred a net loss $5,563,000, or $.51 per share for 1995, as compared to a net loss of $5,992,000, or $.47 per share for 1996 and a net loss of $5,151,000, or $.23 per share for 1997.

The increased loss for 1996 as compared to 1995 (excluding the unusual charge) is attributable primarily to the increased research and development costs relating to the Company's glutathione peroxidase mimics program. Decreases in research and development and sales, general and administrative expenses resulted in the decrease in the net loss for 1997. The decrease in net loss per share in 1997 is primarily due to the increase in the weighted average

number of shares outstanding.

The Company expects to incur a substantial net loss for 1998. If substantial additional capital is raised through further sales of securities (See Financial Condition, Liquidity and Capital Resources), the Company plans to continue to invest in research and development activities and incur sales, general and administrative expenses in amounts greater than its anticipated near-term product margins. If the Company is unable to raise sufficient additional capital, it will have to cease, or severely curtail, its operations. In this event, while expenses will be reduced, expense levels, and the potential write down of various assets, would still be in amounts greater than anticipated revenues.

See Note 2 to the consolidated financial statements regarding new accounting pronouncements issued but not yet adopted.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
OXIS International, Inc.:

We have audited the accompanying consolidated balance sheets of OXIS International, Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the management of OXIS International, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, such consolidated financial statements present fairly, in all material respects, the financial position of OXIS International, Inc. and subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred losses in each of the last three years, and at December 31, 1997, the Company had an accumulated deficit of $38,174,000, raising substantial doubt about its 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 this uncertainty.

DELOITTE & TOUCHE LLP

March 13, 1998
Portland, Oregon

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1997 AND 1996

<TABLE>
<CAPTION>

	1997	1996

<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,290,000	$ 422,000
Accounts receivable	2,011,000	861,000
Inventories	1,828,000	591,000
Prepaid and other	79,000	191,000
Total current assets	5,208,000	2,065,000
Property, plant and equipment, net	3,968,000	1,327,000
Assets under capital leases, net	--	309,000
Technology for developed products and custom assays, net	3,065,000	3,782,000
Other assets	334,000	514,000
Total assets	$12,575,000	$7,997,000

</TABLE>

See accompanying notes.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1997 AND 1996

<TABLE>
<CAPTION>

	1997	1996
<S>	<C>	<C>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 1,423,000	$ 1,221,000
Accounts payable	1,553,000	1,386,000
Customer deposits	--	132,000
Accrued payroll, payroll taxes and other	1,181,000	655,000
Current portion of long-term debt	93,000	76,000
Total current liabilities	4,250,000	3,470,000
Long-term debt due after one year	1,570,000	2,000
Commitments and contingencies (Notes 1, 3 and 10)		
Shareholders' equity:		
Preferred stock - $.01 par value; 15,000,000 shares authorized:		
Series B - 642,583 shares issued and outstanding at December 31, 1997 and 1996 (liquidation preference of $1,500,000)	6,000	6,000
Series C - 1,021,697 shares issued and outstanding at December 31, 1997 (1,647,157 at December 31, 1996)	11,000	17,000
Series D - 750 shares issued and outstanding at December 31, 1997 (1,650 at December 31, 1996)	--	--
Series E - no shares issued and outstanding at December 31, 1997 (2,200 at December 31, 1996)	--	--
Common stock - $.50 par value; 50,000,000 shares authorized; 28,596,320 shares issued and outstanding at December 31, 1997 (13,790,736 at December 31, 1996)	14,298,000	6,895,000
Additional paid in capital	30,868,000	30,706,000
Accumulated deficit	(38,174,000)	(33,023,000)
Accumulated translation adjustments	(254,000)	(76,000)
Total shareholders' equity	6,755,000	4,525,000

Total liabilities and shareholders' equity	$ 12,575,000	$ 7,997,000

</TABLE>

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

<TABLE>
<CAPTION>

	1997	1996	1995
<S>	<C>	<C>	<C>
Revenues:			
Sales	$ 4,850,000	$ 4,802,000	$ 4,982,000
Royalties and license fees	209,000	65,000	154,000
Total revenues	5,059,000	4,867,000	5,136,000
Costs and expenses:			
Cost of sales	3,200,000	3,009,000	2,939,000
Research and development	4,319,000	4,908,000	4,299,000
Sales, general and administrative	2,618,000	2,841,000	3,332,000
Purchased in-process technology (Note 3)	--	--	3,329,000
Total costs and expenses	10,137,000	10,758,000	13,899,000
Operating loss	(5,078,000)	(5,891,000)	(8,763,000)
Interest income	78,000	37,000	42,000
Interest expense	(151,000)	(138,000)	(171,000)
Net loss	$(5,151,000)	$(5,992,000)	$(8,892,000)
Net loss per share - basic	$(.23)	$(.47)	$(0.82)
Weighted average number of shares used in computation - basic	21,947,119	12,821,544	10,854,149

</TABLE>

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

<TABLE>
<CAPTION>

	1997	1996	1995
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net loss	$(5,151,000)	$(5,992,000)	$(8,892,000)
Adjustments to reconcile net loss to cash used for operating activities:			
Depreciation and amortization	1,224,000	1,381,000	1,369,000
Purchased in-process technology	--	--	3,329,000
Changes in assets and liabilities (net of business acquisitions):			
Accounts receivable	(881,000)	(50,000)	(70,000)
Inventories	(152,000)	355,000	(17,000)
Prepaid and other current assets	132,000	(2,000)	209,000

Accounts payable	(178,000)	220,000	(565,000)
Customer deposits	(132,000)	(118,000)	(866,000)
Accrued liabilities	291,000	(69,000)	251,000
Net cash used for operating activities	(4,847,000)	(4,275,000)	(5,252,000)
Cash flows from investing activities:			
Redemption of certificates of deposit	--	--	496,000
Purchase of equipment	(70,000)	(58,000)	(99,000)
Cash of businesses acquired (Note 3)	7,000	--	143,000
Additions to patents and other assets	(50,000)	(99,000)	--
Other	--	(1,000)	(136,000)
Net cash provided by (used for) investing activities	(113,000)	(158,000)	404,000
Cash flows from financing activities:			
Short-term borrowing	872,000	1,061,000	1,366,000
Proceeds from issuance of long-term debt	--	--	1,255,000
Costs in connection with issuance of long-term debt	--	--	(152,000)
Deferred financing costs	--	(251,000)	--
Proceeds from issuance of stock, net of related cost	6,215,000	4,305,000	3,077,000
Repayment of short-term notes	(1,113,000)	(690,000)	(340,000)
Repayment of capital lease obligations and other liabilities	(71,000)	(294,000)	(573,000)
Net cash provided by financing activities	5,903,000	4,131,000	4,633,000
Effect of exchange rate changes on cash	(75,000)	(3,000)	6,000
Net increase (decrease) in cash and cash equivalents	868,000	(305,000)	(209,000)
Cash and cash equivalents - beginning of year	422,000	727,000	936,000
Cash and cash equivalents - end of year	$ 1,290,000	$ 422,000	$ 727,000

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

	1997	1996	1995
Supplemental schedule of noncash operating and financing activities:			
Inventory purchase with deferred payment terms	--	--	$ 250,000
Common stock issued as incentive to purchase notes	--	--	$ 156,000
Issuance of Series C Preferred Stock in exchange for cancellation of notes	--	$ 844,000	--
Conversion of 8% Convertible Subordinated Debentures into Common Stock	--	$1,312,000	--
Conversion of Preferred Stock into Common Stock	$2,527,000	$ 515,000	--
Common stock issued or to be issued in business acquisitions, net of cash acquired	$1,552,000	--	$3,210,000

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995

<CAPTION>

	Preferred Stock		Common Stock		Additional paid-in	Accumulated	Accumulated translation	Total shareholders'
	Shares	Amount	Shares	Amount	capital	deficit	adjustments	equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balances, Januery 1, 1995	40,000		9,322,762	$4,661,000	$20,230,000	$(18,139,000)	$(53,000)	$ 6,699,000
Shares issued in connection with short-term notes			93,300	47,000	109,000			156,000
Sale of common shares			1,227,625	614,000	1,089,000			1,703,000
Conversion of Series A preferred shares to common	(40,000)		40,000	20,000	(20,000)			--
Shares issued in connection with 1995 business combination (Note 3)			1,440,736	720,000	2,633,000			3,353,000
Series B preferred shares issued (Note 3)	642,583	$ 6,000			1,169,000			1,175,000
Accumulated translation adjustments							110,000	110,000
Net loss						(8,892,000)		(8,892,000)
Balances, December 31, 1995	642,583	6,000	12,124,423	6,062,000	25,210,000	(27,031,000)	57,000	4,304,000
Sale of Series C preferred shares for cash	1,125,590	11,000			1,225,000			1,236,000
Series C preferred shares issued in exchange for concellation of notes	648,490	7,000			837,000			844,000
Sale of Series D preferred shares	2,000	-			1,939,000			1,939,000
Common shares issued upon conversion of debentures			1,050,217	525,000	787,000			1,312,000
Conversion of Series C preferred shares to common stock	(126,923)	(1,000)	136,924	69,000	(68,000)			-
Conversion of Series D preferred shares to common stock	(350)	-	360,839	180,000	(180,000)			-

</TABLE>

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (CONTINUED)
YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995

<TABLE>
<CAPTION>

	Preferred Stock		Common Stock		Additional paid-in	Accumulated	Accumulated translation	Total shareholders'
	Shares	Amount	Shares	Amount	capital	deficit	adjustments	equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Sale of Series E preferred and common shares for cash	2,200	-	55,000	27,000	923,000			950,000
Other issuances of common shares			63,333	32,000	33,000			65,000
Accumulated translation adjustments							(133,000)	(133,000)
Net loss						(5,992,000)		(5,992,000)
Balances, December 31, 1996	2,293,590	23,000	13,790,736	6,895,000	30,706,000	(33,023,000)	(76,000)	4,525,000
Conversion of Series C preferred shares to common	(625,460)	(6,000)	869,625	435,000	(429,000)			-
Conversion of Series D								

preferred shares to common	(900)	-	1,884,804	942,000	(942,000)			-
Conversion of Series E preferred shares to common	(2,200)	-	1,981,100	991,000	(991,000)			-
Public offering of common shares (Note 6)		9,000,000	4,500,000	1,464,000			5,964,000	
Shares issued in connection with 1997 business combination (Note 3)		1,000,000	500,000	1,059,000			1,559,000	
Other issuance of common stock		70,055	35,000	1,000		36,000		
Accumulated translation adjustments					(178,000)	(178,000)		
Net loss				(5,151,000)		(5,151,000)		
Balances, December 31, 1997	1,665,030	$17,000	28,596,320	$14,298,000	$30,868,000	$(38,174,000)	$(254,000)	$ 6,755,000

</TABLE>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

OXIS International, Inc. (the "Company") develops, manufactures and markets selected therapeutic and diagnostic products. The Company's research and development efforts are concentrated principally in the development of products to diagnose, treat and prevent diseases associated with free radicals and reactive oxygen species. The Company is headquartered in Portland, Oregon and operates a research and development facility near Paris, France. As described in Note 3, on December 31, 1997, the Company acquired a manufacturer of medical equipment located near Philadelphia, Pennsylvania.

Therapeutic drug monitoring assays are manufactured by the Company in the United States and are sold to hospital clinical laboratories and reference laboratories by an in-house sales force and a network of distributors both within and outside the United States. Assays to measure markers of oxidative stress are manufactured by the Company in the United States (in France prior to July, 1996) and are sold directly to researchers and to distributors for resale to researchers, primarily in Europe, the United States and Japan. The Company also sells pharmaceutical forms of superoxide dismutase (SOD) for human and veterinary use.

These 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. The Company has incurred losses in each of the last three years and at December 31, 1997 had an accumulated deficit of $38,174,000. These factors, among others, may indicate that the Company may be unable to continue as a going concern for a reasonable period of time. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is contingent upon its ability to obtain additional financing, and to generate revenue and cash flow to meet its obligations on a timely basis.

During 1997, the Company raised approximately $5,964,000 net of expenses through the sale of its common stock. The Company expects that additional capital will be required during 1998 to continue operating in accordance with its current plans. The Company has engaged an agent to assist on a best-efforts basis to complete a private placement of its common stock. If the Company is unable to raise additional capital during the first half of 1998 it intends to curtail its operations through the reduction of personnel and facility costs and by reducing its research and development efforts; however, no assurances can be given that it will be able to do so. If the Company were to be unable to sufficiently curtail its costs in such a situation, it might be forced to seek protection of the courts through reorganization, bankruptcy or insolvency proceedings.

2. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION - The accompanying financial statements include the accounts of the Company as well as its subsidiaries. The functional currency of the Company's French subsidiary is the French franc. The French subsidiary's assets and liabilities are translated at the exchange rate at the end of the year, and its statement of operations is translated at the average exchange rates during each year. Gains or losses resulting from foreign currency translation are accumulated as a separate component of shareholders' equity. All significant intercompany balances and transactions are eliminated in consolidation.

CASH EQUIVALENTS consist of money market accounts with commercial banks.

INVENTORIES are stated at the lower of cost or market. Cost has been determined by using the first-in, first-out and specific identification methods. Inventories at December 31, 1997 and 1996, consisted of the following:

<TABLE>
<CAPTION>

	1997	1996
<S>	<C>	<C>
Raw materials	$1,319,000	$148,000
Work in process	344,000	200,000
Finished goods	165,000	243,000
Total	$1,828,000	$591,000

</TABLE>

PROPERTY, PLANT AND EQUIPMENT is stated at cost, or, in the case of property, plant and equipment acquired in transactions accounted for by the purchase method, at the estimated fair market value at the date of the acquisition (which is then considered to be the Company's cost). Depreciation of equipment is computed using the straight-line method over estimated useful lives of three to ten years. Leasehold improvements are amortized over the shorter of five years or the remaining lease term.

Property, plant and equipment at December 31, 1997 and 1996, consisted of the following:

<TABLE>
<CAPTION>

	1997	1996
<S>	<C>	<C>
Land	$ 220,000	$ --
Building and improvements	1,780,000	--
Furniture and office equipment	457,000	369,000
Laboratory and manufacturing equipment	3,608,000	2,510,000
Leasehold improvements	669,000	766,000
Property, plant and equipment, at cost	6,734,000	3,645,000
Accumulated depreciation and amortization	(2,766,000)	(2,318,000)
Property, plant and equipment, net	$ 3,968,000	$ 1,327,000

</TABLE>

During 1996 and 1997 certain equipment under capital lease was purchased, and the cost and accumulated amortization of that equipment was reclassified to property, plant and equipment.

TECHNOLOGY - Technology for developed products and custom assays, acquired in business combinations, is being amortized over estimated useful lives of seven to ten years. Accumulated amortization of technology for developed products and custom assays was $2,334,000 as of December 31, 1997, and $1,682,000 as of December 31, 1996. The Company periodically reviews net cash flows from sales of products and projections of net cash flows from sales of products on an undiscounted basis to assess recovery of intangible assets.

STOCK OPTIONS - The Company applies the intrinsic value based method described in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", in accounting for its stock incentive plan.

REVENUE RECOGNITION - The Company recognizes product sales upon shipment of the product to the customer.

INCOME TAXES - Deferred income taxes, reflecting the net tax effects of temporary differences between the carrying amount of assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes, are based on tax laws currently enacted. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized.

NET LOSS PER SHARE - Net loss per share is computed based upon the weighted average number of common shares outstanding ("basic") and, if dilutive, the incremental shares issuable upon the assumed exercise of stock options or warrants and the assumed conversion of preferred stock ("dilutive"). Due to the net losses in each of the last three years, the computation of dilutive net loss per share is antidilutive and is not presented.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles 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 sales and expenses during the reporting period. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS - The carrying amount reported in the balance sheet for cash and cash equivalents, accounts receivable, notes payable, customer deposits and accounts payable approximates fair value due to the short-term nature of the accounts. The carrying amount reported in the balance sheet for secured convertible term notes approximates fair value because the terms of the notes were determined and the notes and debentures were sold shortly before the dates of the balance sheets in which they appear.

NEW ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT ADOPTED - In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. This Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This Statement is effective for fiscal years beginning after December 15, 1997.

In June 1997, FASB issued SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. SFAS No. 131 establishes standards for the way that public enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. This Statement is effective for fiscal years beginning after December 15, 1997. The Company has not completed its analysis of which segments it will report

on.

3. BUSINESS COMBINATIONS

On July 19, 1995, the Company consummated the acquisition of Therox Pharmaceuticals, Inc. ("Therox") pursuant to a transaction wherein Therox was merged with and into a wholly-owned subsidiary of the Company. Therox was a Philadelphia-based start-up company focused on the development of therapeutics to treat diseases associated with damage from

free radicals. The Company issued 1,440,736 shares of its common stock to Therox stockholders in exchange for all of the Therox capital stock. In addition, the acquisition agreement provides for payment of up to $2,000,000 by the Company to the Therox stockholders based on the successful commercialization of the Therox technologies. As of December 31, 1997, no additional payments have been made.

The acquisition of Therox has been recorded as a purchase and, accordingly, the acquired assets and liabilities were recorded at their estimated fair values as of the date of acquisition. The aggregate purchase price was $3,353,000 of which approximately $3,329,000 represented technology related to research and development projects that were in process and that had no alternative future use other than the completion of these projects. Accordingly, these costs have been charged to operations immediately upon completion of the acquisition.

Simultaneously with the Therox acquisition, a Series B Preferred Stock Purchase Agreement was entered into between the Company and two venture capital firms (S.R. One, Limited and Brantley Venture Partners II, L.P.) which were major stockholders of Therox. Pursuant to this agreement, the Company sold 642,583 shares of its Series B Preferred Stock for an aggregate price of $1,500,000 (net proceeds of $1,175,000).

On December 31, 1997, the Company consummated the acquisition of Innovative Medical Systems Corp. ("IMS") pursuant to a transaction whereby the Company acquired all of the outstanding stock of IMS in exchange for 1,000,000 shares of the Company's common stock issued immediately and additional common shares to be issued. The acquisition of IMS has been recorded as a purchase and, accordingly, the acquired assets and liabilities were recorded at their estimated fair values as of the date of acquisition. The aggregate purchase price of $1,559,000 has been allocated to the assets and liabilities acquired. The purchase price represents the sum of (1) 1,000,000 common shares issued times the average per share closing price of the Company's common stock for the three days before and after November 1, 1997, the date on which the two companies reached agreement on the purchase price and (2) the present value of minimum future issuances of common stock aggregating $1,250,000. The number of additional common shares to be issued to former IMS shareholders depends on future revenues of IMS through 2002 and on the market price of the Company's common stock. The total number of additional shares of common stock to be issued to former IMS shareholders in exchange for their IMS stock is limited to a maximum of 4,519,264 shares.

Subject to final valuation of assets acquired and liabilities assumed, the cost of the acquisition of IMS has been allocated to the assets acquired and liabilities assumed as follows:

<TABLE>
<S> <C>

Cash	$ 7,000
Accounts receivable	324,000
Inventories	1,093,000
Property, plant and equipment	2,861,000
Other assets	86,000
Less liabilities assumed	(2,812,000)
Acquisition cost	$ 1,559,000

</TABLE>

Because the acquisition has been recorded as a purchase, the Company's consolidated results of operations for 1995, 1996 and 1997 do not include the operating results of the acquired company.

The following table presents the unaudited pro forma combined results of operations for the years ended December 31, 1997 and 1996, as if the acquisition had occurred at the beginning of the period presented:

<TABLE>
<CAPTION>

	1997	1996
<S>	<C>	<C>
Total revenues	$ 7,207,000	$ 8,313,000
Net loss	$(6,080,000)	$(6,214,000)
Net loss per share (based on 28,596,320 shares outstanding)	$ (.21)	$ (.22)

</TABLE>

The above table includes, on an unaudited pro forma basis, the Company's financial information for the years ended December 31, 1997 and 1996, combined with the financial information of IMS for its fiscal years ended October 31, 1997 and 1996.

The unaudited pro forma combined results of operations are presented for illustrative purposes only and are not necessarily indicative of the operating results that would have occurred had the acquisition been consummated at the beginning of the periods presented, nor are they necessarily indicative of future operating results.

4. NOTES PAYABLE

Notes payable at December 31, 1997 and 1996 consisted of the following:

<TABLE>
<CAPTION>

	1997	1996
<S>	<C>	<C>
Secured convertible term notes	$ 500,000	$1,000,000
8% unsecured notes	480,000	--
Note payable to Mellon Bank, interest at 12.5%; subsequently refinanced	389,000	--
Liability, without interest, under inventory purchase agreement	--	200,000
Other	54,000	21,000
	$1,423,000	$1,221,000

</TABLE>

In October 1996, the Company sold $1,000,000 of secured convertible term notes with warrants to two of the Company's current shareholders. The remaining note bears interest at 15% per annum, was due in June 1997, and is convertible into common stock at a price determined based on the closing bid price of the Company's common stock. The warrants issued entitle the holders to purchase up to 300,000 shares of common stock at an exercise price of $1.61 per share. The conversion rate of the convertible term note and the exercise price of the warrants are subject to change under certain circumstances. The convertible term note is secured by assets relating to the Company's clinical diagnostic products.

The 8% unsecured notes are due to shareholders of the Company. The notes were

due in May 1997. The majority of the noteholders are indebted to the Company under the terms of a separate indemnification agreement.

Payment of the secured convertible term note and the 8% unsecured notes has been deferred pending the outcome of ongoing discussions with representative of the noteholders.

The note payable to Mellon Bank was paid in full in February 1998 from proceeds of a loan pursuant to a $450,000 line of credit from Commerce Bank/Pennsylvania, N.A. The liability under the new line of credit bears interest at the bank's prime rate plus 1.75% (initially 10.5%). The liability is secured by inventory and accounts receivable of IMS and is guaranteed by a former IMS shareholder.

5. LONG-TERM DEBT

Long-term debt at December 31, 1997 and 1996 consisted of the following:

<TABLE>
<CAPTION>

	1997	1996
<S>	<C>	<C>
Note payable to AT&T Small Business Lending Corporation, secured by land, building, improvements, equipment, accounts receivable and general intangibles of IMS; interest at prime plus 2% (10.5% at December 31, 1997) due in monthly installments through October 2011	$1,535,000	$ --
Note payable to shareholder	128,000	--
Other	--	$78,000
	1,663,000	78,000
Less amounts due within one year	93,000	76,000
	$1,570,000	$ 2,000

</TABLE>

The aggregate annual maturities of long-term debt during the years ending December 31, 1999 to 2002 are as follows: 1999 - $100,000; 2000 - $110,000; 2001 - $71,000; 2002 - $79,000.

6. SHAREHOLDERS' EQUITY

COMMON STOCK - On May 20, 1997, the Company issued 9,000,000 shares of its common stock pursuant to an underwriting agreement with certain underwriters in France. The underwriters purchased the stock at a price of 4.60 French francs per share (an aggregate of $7,328,000). The newly-issued shares have been listed on the French stock market, Le Nouveau Marche, and on the NASDAQ National Market System.

PREFERRED STOCK - Terms of the preferred stock are to be fixed by the Board of Directors at such time as the preferred stock is issued. Forty thousand (40,000) shares of nonvoting Series A Preferred Stock were issued during 1994 and were converted to common stock on a one share for one share basis during 1995. The 642,583 shares of Series B Preferred Stock which were issued in 1995 and remained outstanding at December 31, 1997 are convertible into common stock on a one-for-one basis and have the same voting rights as the common stock. The Series B Preferred Stock has certain preferential rights with respect to liquidation and dividends.

During the first six months of 1996, the Company issued 1,125,590 shares of its Series C Preferred Stock for net cash proceeds of $1,236,000. In

addition, in May 1996, the Company issued 648,490 shares of its Series C Preferred stock in exchange for the cancellation of $766,000 principal plus accrued interest of $78,000 on 8% notes payable to former shareholders of the Company's French subsidiary. The shares of Series C Preferred Stock are convertible into shares of the Company's common stock at the option of the holders at any time. The conversion ratio is based on the average closing bid price of the common stock for the fifteen consecutive trading days ending on the date immediately preceding the date notice of conversion is given, but cannot be less than one nor more than 1.4444 common shares for each Series C Preferred share. The conversion ratio may be adjusted under certain circumstances, and the Company has the right to automatically convert the Series C Preferred Stock into common stock under certain circumstances. Each share of Series C Preferred Stock is entitled to the number of votes equal to 1.30 divided by the average closing bid price of the Company's common stock during the fifteen consecutive trading days immediately prior to the date such shares of Series C Preferred Stock were purchased. At December 31, 1997, 1,021,697 shares of Series C Preferred Stock remained outstanding.

In May 1996, the Company issued 2,000 shares of its Series D Preferred Stock and warrants to purchase 810,126 shares of common stock for net cash proceeds of $1,939,000. The Series D Preferred Stock entitles the holder thereof to convert its shares into a number of shares of common stock determined by dividing the stated value of the Series D Preferred Stock (i.e., $1,000 per share), plus a premium in the amount of 8% per annum of the stated value from the date of issuance, by a conversion price equal to the lesser of (i) $2.30 and (ii) 75% of the average of the closing bid prices for shares of common stock for the five trading days immediately prior to conversion, but limited to a maximum of 2,424,884 shares of common stock. The holders of Series D Preferred Stock have no voting power, except as specifically provided by Delaware General Corporation Law. At December 31, 1997, 750 shares of Series D Preferred Stock remained outstanding.

In December 1996, the Company issued 2,200 shares of its Series E Preferred Stock and 55,000 shares of common stock for net cash proceeds of $950,000. During 1997 all of the Series E Preferred Stock was converted into common stock.

STOCK WARRANTS - In prior years, the Company issued warrants to purchase shares of common stock to certain officers and key employees (none of whom any longer hold a position with the Company) and to former directors. These warrants are exercisable at $2.875 per share and expire through 1999. At December 31, 1996 and 1995, warrants to purchase 1,012,500 shares were outstanding and exercisable. No warrants were exercised during 1995, 1996 or 1997. During 1997 warrants to purchase 35,000 shares expired. At December 31, 1997, warrants to purchase 977,500 shares remained outstanding and exercisable.

In connection with the issuance of common stock, 8% Convertible Subordinated Debentures, and Series B, C and E Preferred Stock, the Company has issued to its placement agents warrants to purchase 614,573 shares of common stock at prices ranging from $1.375 to $3.25 per share. The warrants all remained outstanding and were exercisable at December 31, 1997.

A warrant to purchase 810,126 common shares at $3.09 per share was issued to the purchaser of the Company's Series D Preferred Stock. The warrant was immediately exercisable and remained outstanding as of December 31, 1997.

Warrants to purchase 300,000 common shares were issued to the purchasers of the secured convertible term notes in October 1996. The warrants have an exercise price of $.61 per share. They were immediately exercisable and remained outstanding as of December 31, 1997.

STOCK OPTIONS - The Company has a stock incentive plan under which 4,200,000 shares of the Company's common stock are reserved for issuance. The plan permits granting stock options to acquire shares of the Company's common stock, awarding stock bonuses of the Company's common stock, and granting stock appreciation rights. Options granted pursuant to the Plan have a maximum term of ten years; vesting is determined by the Compensation Committee of the Company's board of directors. Options granted through 1997 have had vesting requirements of up to three years. Options granted and outstanding under the plan are summarized as follows:

<TABLE>
<CAPTION>

	1997		1996		1995	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	1,420,500	$1.92	382,900	$2.93	90,000	$3.44
Granted	943,800	$ .62	1,090,000	$1.57	317,900	$2.73
Exercised	--	--	(3,333)	$1.69	--	--
Forfeitures	(20,600)	$1.33	(49,067)	$2.17	(25,000)	$2.25
Outstanding at end of year	2,343,700	$1.40	1,420,500	$1.92	382,900	$2.93
Exercisable at end of year	1,333,065	$1.66	619,331	$2.29	219,299	$3.18

</TABLE>

The number of shares under option, weighted average exercise price and weighted average remaining contractual life of all options outstanding as of December 31, 1997, by range of exercise price was as follows:

<TABLE>
<CAPTION>

Range of exercise price	Shares	Weighted average exercise price	Weighted average remaining life
<S>	<C>	<C>	<C>
$ .53 - $ .91	798,700	$ .55	9.2 years
$1.15 - $1.69	1,174,500	$1.52	8.5 years
$2.25 - $2.28	125,500	$2.26	6.7 years
$3.00 - $3.50	245,000	$3.31	7.1 years

</TABLE>

The number of shares under option and weighted average exercise price of options exercisable as of December 31, 1997, by range of exercise price was as follows:

<TABLE>
<CAPTION>

Range of exercise price	Shares	Weighted average exercise price
<S>	<C>	<C>
$ .53 - $ .91	309,566	$ .59
$1.15 - $1.69	652,999	$1.51
$2.25 - $2.28	125,500	$2.26
$3.00 - $3.50	245,000	$3.31

</TABLE>

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", in accounting for its stock incentive plan. Accordingly, since the exercise price of all options issued under the plan has been greater than or equal to the fair market value of the stock at the date

of issue of the options, no compensation cost has been recognized for options granted under the plan. Had compensation cost for options granted under the plan been determined based on the fair value at the grant dates in a manner consistent with the method determined under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", the net loss and net loss per share for 1997, 1996 and 1995 would have been increased to the pro forma amounts indicated below:

<TABLE>
<CAPTION>

	1997	1996	1995
<S>	<C>	<C>	<C>
Net loss:			
As reported	$(5,151,000)	$(5,992,000)	$(8,892,000)
Pro forma	$(5,543,000)	$(6,596,000)	$(9,195,000)
Net loss per share:			
As reported	$ (.23)	$ (.47)	$ (.82)
Pro forma	$ (.25)	$ (.51)	$ (.85)

</TABLE>

For the purpose of computing the pro forma expense, the fair value of each option is estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

<TABLE>
<CAPTION>

	Grants issued in		
	1997	1996	1995
<S>	<C>	<C>	<C>
Dividend yield	0%	0%	0%
Expected volatility	69%	75%	75%
Risk-free interest rate	5.7%	6%	6%
Expected lives	3 years	3 years	3 years

</TABLE>

The weighted average fair value as of the option date was computed to be $.33 per share for options issued during 1997, $.83 per share for options issued during 1996 and $1.53 per share for options issued during 1995.

As of December 31, 1997, the Company also has options outstanding that have not been issued pursuant to its stock incentive plan. These options grant the holders the right to acquire 249,699 shares of the Company's common stock at exercise prices ranging from $1.69 to $3.55 per share.

7. INCOME TAXES

INCOME TAX PROVISION - Income tax provisions were not necessary in 1997, 1996 and 1995 due to net losses.

DEFERRED TAXES - Deferred taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating losses and tax credit carryforwards.

The tax effects of significant items comprising the Company's deferred taxes as of December 31 were as follows:

<TABLE>
<CAPTION>

United States taxes:	1997	1996
<S>	<C>	<C>
Deferred tax assets:		
Federal net operating loss carryforward and capitalized research and development		

expenses	$ 5,396,000	$ 5,194,000
Federal R&D tax credit carryforward	522,000	522,000
State net operating loss carryforward and capitalized research and development expenses	310,000	211,000
Deferred tax liabilities - book basis in excess of noncurrent assets acquired in the acquisition of IBC	(1,300,000)	(1,102,000)
Net deferred tax assets	4,928,000	4,825,000
Valuation allowance	(4,928,000)	(4,825,000)
Net deferred taxes	$ --	$ --

French taxes:	1997	1996
Deferred tax assets:		
Net operating loss carryforward	$ 4,320,000	$ 5,426,000
Impact of temporary differences	(133,000)	(211,000)
Total	4,187,000	5,215,000
Valuation allowance	(4,187,000)	(5,215,000)
Net deferred taxes	$ --	$ --

</TABLE>

Temporary differences for French taxes result primarily from leases treated as operating leases for French tax reporting and as capital leases in the consolidated financial statements.

The tax benefits ($5,136,000) of the net operating losses of $15,410,000 which existed at the date of acquisition (September 7, 1994) of the French subsidiary will be recorded as a reduction of the net unamortized balance of property, equipment, capitalized lease assets and intangible assets of $1,824,000 when and if realized, and the remaining benefit will be recorded as a reduction of income tax expense.

The tax benefits ($351,000) of the net operating losses of $1,032,000 which existed at the date of acquisition (December 31, 1997) of IMS will be recorded as a reduction of the net unamortized balance of property, plant and equipment of $2,861,000 when and if realized.

Statement of Financial Accounting Standards No. 109 requires that the tax benefit of net operating losses, temporary differences and credit carryforwards be recorded as an asset to the extent that management assesses that realization is "more likely than not." Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable

income within the carryforward period. Because of the Company's recent history of operating losses, management has provided a valuation allowance for its net deferred tax assets.

TAX CARRYFORWARDS - At December 31, 1997, the Company had net operating loss carryforwards of approximately $2,493,000 to reduce United States federal taxable income in future years, and research and development tax credit carryforwards of $522,000 to reduce United States federal taxes in future years. In addition, the Company's French subsidiary had operating loss carryforwards of $11,784,000 (70,862,000 French francs) to reduce French taxable income in future years. These carryforwards expire as follows:

<TABLE>
<CAPTION>

Year of expiration	United States net operating loss carryforward	R&D tax credit carryforward	French operating loss carryforward

<S> <C> <C> <C>
1998 $ 208,000 $ 1,070,000
1999 111,000 190,000
2000 -- 5,000
2001 23,000 $123,000 --
2002 7,000 6,000 --
2003-2012 2,144,000 393,000 --
No expiration -- -- 10,519,000
---------- -------- -----------

$2,493,000 $522,000 $11,784,000
========== ======== ===========
</TABLE>

Utilization of the United States tax carryforwards is subject to certain restrictions in the event of a significant change (as defined in Internal Revenue Service guidelines) in ownership of the Company.

8. MAJOR CUSTOMERS AND CONCENTRATION OF CREDIT RISK

One domestic customer and one foreign licensee have accounted for significant portions of the Company's revenues during the past three years. The percentages of total revenues derived from sales to, and royalties from, these major customers are as follows:

<TABLE>
<CAPTION>
1997 1996 1995

<S> <C> <C> <C>
Domestic customer -- -- 18%
Spanish licensee 31% 39% 16%
</TABLE>

The Company's domestic customer to whom sales of bovine superoxide dismutase ("bSOD") accounted for 18% of the Company's revenues in 1995, announced in the fourth quarter of 1995 that the clinical trial in which it was using bSOD purchased from the Company failed to show the desired results, and sales of bSOD to this customer have ceased.

The Company limits its foreign exchange risk by buying and selling bulk bSOD in a single currency, the Dutch guilder. The Company maintains a bank account in The Netherlands for receipt and disbursement of Dutch guilders and had the equivalent of $112,000 and $1,000 in that account at December 31, 1997 and 1996, respectively.

The Company and its French subsidiary maintain bank accounts in France and had the equivalent of $116,000 and $6,000 in those accounts at December 31, 1997 and 1996, respectively. Foreign currency transaction gains and losses were not material.

9. GEOGRAPHIC AREA INFORMATION

The Company operates in a single industry segment: the development, manufacture and marketing of therapeutic and diagnostic products. The Company's foreign operations consist of research and development and manufacturing facilities and certain marketing activities conducted by the Company's subsidiary in France. Sales and costs associated with bSOD manufactured in the Netherlands are considered to be United States operations, since the contract to manufacture bSOD and all related sales activities are administered in the United States. Similarly, royalties from foreign customers that relate to bSOD-based products are considered to be export sales from the United States, since the product was developed in the United States.

Sales, operating income and identifiable assets, classified by the major geographic areas in which the Company operates, are as follows:

<TABLE>
<CAPTION>

	1997	1996	1995
<S>	<C>	<C>	<C>
Revenues from unaffiliated customers:			
United States	$ 1,946,000	$ 1,303,000	$ 2,686,000
Export sales from the U.S.	3,113,000	3,185,000	1,878,000
France	--	379,000	572,000
Total	$ 5,059,000	$ 4,867,000	$ 5,136,000
Operating loss:			
United States	$(2,873,000)	$(2,874,000)	$(5,653,000)
France	(2,205,000)	(3,017,000)	(3,110,000)
Total	$(5,078,000)	$(5,891,000)	$(8,763,000)
Identifiable assets:			
United States	$10,068,000	$ 5,110,000	$ 7,824,000
France	2,507,000	2,942,000	3,866,000
Eliminations	--	(55,000)	(1,820,000)
Total	$12,575,000	$ 7,997,000	$ 9,870,000

</TABLE>

10. COMMITMENTS AND CONTINGENCIES

The Company leases its facilities in Oregon and in France under operating leases that expire in 1998. Lease payments to which the Company is committed in 1998 are $230,000. Rental expense included in the accompanying statements of operations was $361,000 in 1997, $519,000 in 1996 and $492,000 in 1995.

The Company and its subsidiaries are parties to various claims. Although the Company is unable to predict with certainty whether or not it will ultimately be successful in its defense of such claims or, if not, what the impact might be, management currently believes that disposition of these matters will not have a materially adverse effect on the Company's consolidated financial statements.

11. 401(k) SAVINGS PLAN

The Company has a 401(k) saving plan (the "Plan") which covers all United States employees who meet certain minimum age and service requirements. The Company's matching contribution to the Plan for each year is 100% of the first $1,000 of each employee's salary deferral and 33-1/3% of the next $3,000 of salary deferral. The Company's contributions have not been material.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

ITEM 10. Directors and Executive Officers of the Registrant.

The information required by this item is incorporated herein by reference from the material contained under the caption "Proposal No. 1-Election of Directors" in the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A.

ITEM 11. EXECUTIVE COMPENSATION

The information required under this item is incorporated herein by reference from the material contained under the caption "Compensation of Executive Officers" in the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required under this item is incorporated herein by reference from the material contained under the caption "Proposal No. 1-Election of Directors" in the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required under this item is incorporated herein by reference from the material contained under the caption "Proposal No. 1-Election of Directors" in the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) The following documents are filed as part of this report:

1. FINANCIAL STATEMENTS

See pages 18 to 41.

2. FINANCIAL STATEMENT SCHEDULES

Schedules are omitted because they are not applicable or the required information is included in the financial statements and notes thereto.

3. EXHIBITS

See Exhibit Index - page 45.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Company during the fourth quarter of 1997.

(c) Exhibits specified by item 601 of Regulation S-K.

See Exhibit Index - page 45.

(d) Financial statement schedules required by Regulation S-K are omitted because they are not applicable or the required information is included in the financial statements and notes hereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 23, 1998

OXIS INTERNATIONAL, INC.
Registrant

By: /s/ Ray R. Rogers

Ray R. Rogers
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

/s/ Jon S. Pitcher

Jon S. Pitcher
Chief Financial Officer
(Principal Financial and
Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following directors on behalf of the Registrant.

/s/ Anna D. Barker	March 23, 1998	/s/ Timothy G. Biro	March 23, 1998
Anna D. Barker	Date	Timothy G. Biro	Date
/s/ Richard A. Davis	March 23, 1998	/s/ Stuart S. Lang	March 23, 1998
Richard A. Davis	Date	Stuart S. Lang	Date
/s/ David Neeham	March 23, 1998	/s/ Ray R. Rogers	March 23, 1998
David Needham	Date	Ray R. Rogers	Date
/s/ A.R. Sitaraman	March 23, 1998		
A.R. Sitaraman	Date		

EXHIBIT INDEX

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT	PAGE NUMBER
<S>	<C>	<C>
2 (a)	Agreement and Plan of Reorganization and Merger between OXIS International, Inc., OXIS Acquisition Corporation and Therox Pharmaceuticals, Inc. Dated July 18, 1995	(1)
2 (b)	Amendment No. 1 to Agreement and Plan for Reorganization and Merger between OXIS International, Inc., OXIS Acquisition Corporation and Therox Pharmaceuticals, Inc.	(2)
2 (c)	Share exchange Agreement by and among Innovative Medical Systems Corp. ("Seller"), OXIS International, Inc. ("Buyer") and each of The Shareholders Who Are Signatories Hereto (collectively, the "Shareholders").	(3)
3 (a)	Second Restated Certificate of Incorporation as filed September 10, 1996	(4)
3 (b)	Certificate of Designations, Preferences, and Rights of Series E Preferred Stock of the Company	(5)
3 (c)	Bylaws of the Company as amended on June 15, 1994	(6)
4 (a)	Securities Purchase Agreement, Registration Rights Agreement and Security Agreement	(7)
10 (a)	1987 Stock Purchase Warrants	(6)
10 (b)	1988 Stock Purchase Warrants	(9)

EXHIBIT INDEX

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT	PAGE NUMBER
<S> <C>		<C>

</TABLE>

(1) Incorporated by reference to the Company's Current Report on Form 8-K dated July 19, 1995.

(2) Incorporated by reference to the Company's Annual Report on Form 10-K for 1995 - Exhibit 2 (b).

(3) Incorporated by reference to the Company's Form 8-K Current Report, dated January 15, 1998.

(4) Incorporated by reference to the Company's Annual Report on Form 10-K for 1996.

(5) Incorporated by reference to the Company's Form 8-K Current Report dated December 30, 1996.

(6) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994.

(7) Incorporated by reference to the Company's Form 8-K Current Report dated November 4, 1996.

(8) Incorporated by reference to the Company's Annual Report on Form 10-K for 1992 - Exhibit 10(b).

(9) Incorporated by reference to the Company's Annual Report on Form 10-K for 1992 - Exhibit 10(c).

(10) Incorporated by reference to the Company's Annual Report on Form 10-K for 1994.

(11) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.

(12) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.

(13) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.

(14) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.

EXHIBIT 10 (j)
NOTE PAYABLE TO AT&T SMALL BUSINESS LENDING CORPORATION
AND RELATED OPEN-END MORTGAGE

OMB APPROVAL NO. 3245-0201

SBA LOAN NUMBER
PLP 950-789-3008

U.S. Small Business Administration
NOTE

Philadelphia, Pennsylvania
(City and State)

(Date) Oct. 28 , 1996

$1.587.500,00

For value received, the undersigned promises to paid to the order of AT&T SMALL BUSINESS LENDING CORPORATION

(Payee)

at its Office in the city of Parsippany, State of New Jersey or at holders option, at such other place as may be designated from time to time by the holder One Million Five Hundred Eighty-Seven Thousand Five Hundred dollars, with interest on unpaid principal computed from the date of each advance to the undersigned at the initial rate of 10.25% percent per annum, payment to be made in installments as follows:

NOTE PAYABLE: One installment of interest only will be payable on the first day of month following the date of this Note. Then, equal monthly installments of principal and interest in the amount of $17,303.00 will be due on the first day of the second month following the date of this Note and on the first day of each and every month thereafter, unless the amount of any installment changes pursuant hereto. The balance of principal, accrued interest and all other amounts due hereunder shall be payable on or before fifteen (15) years from the date of this Note. THE INITIAL INTEREST RATE SHALL BE TEN AND ONE QUARTER PERCENT (10.25%) PER ANNUM. Each payment shall be applied first to the interest accrued to the date of receipt of said payments, and the balance, if any, to principal, and then to any other amounts due hereunder, Including late charges. The interest rate shall not exceed the maximum rate allowable under applicable law.

LATE CHARGES: Borrower agrees to pay a late charge equal to five percent (5.0%) of the payment amount due if such payment is no received within ten (10) days of the due date. Funds received from the borrower will first be applied to interest, to the date of receipt, then to principal, and then to the late fee.

THIS IS A VARIABLE RATE LOAN. Commencing on the first Adjustment Date (as defined below) and continuing on each Adjustment Date thereafter, the interest rate will fluctuate in accordance with the "Prime Rate" as published the InMoney Rates section of the Wall Street Journal on such date (or if the Wall Street Journal is not published on such date, as published in the Wall Street Journal on the first business day after such date, or if no such rate is published in the Wall Street Journal then the prime rate as published in a national daily financial newspaper as selected by the holder of this Note (the "Holder"). The interest rate (spread) to be added to the Prime Rate at the beginning of each applicable adjustment period will be two percent (2%). Each adjustment period will be quarterly, beginning on the first business day of the

calendar quarter following the date of this Note. Adjustment periods and calendar quarters shall commence on each January 1, April 1, July 1 and October 1 (each an "Adjustment Date").

If this Note contains a fluctuating interest rate, the notice provision is not a pre condition for fluctuation (which shall take place regardless of notice). Payment of any installment of principal or interest owing on this Note may be made prior to the maturity date thereof without penalty. Borrower shall provide lender with written notice of intent to prepay part or all of this loan at least three (3) weeks prior to the anticipated prepayment date. A prepayment is any payment made ahead of schedule that exceeds twenty (20) percent of the then outstanding principal balance. If borrower makes a prepayment and fails to give at least three weeks advance notice of intent to prepay, then, notwithstanding any other provision to the contrary in this note or other document, borrower shall be required to pay lender three weeks interest on the unpaid principal as of the date preceding such prepayment

47

The interest rate on this Note shall increase or decrease on each Adjustment Date by adding the spread to the Prime Rate in effect as of such Adjustment Date.

Upon any changes in the interest rate, the above monthly principal and interest payment shall be adjusted to amortize the remaining principal balance in equal monthly payments of principal and interest over the remaining term of the loan.

Holder shall give written notice to the undersigned of each increase or decrease in the interest rate within thirty (30) days after the effective date of each rate adjustment; however, the fluctuation of the interest rate is not contingent on whether the notice is given and any failure of the Holder to give such notice shall not relieve the Borrower from any obligation to make any payment due under this Note.

If the undersigned shall be in default of payment due on the indebtedness herein and the Small Business Administration (SBA) purchases its guaranteed portion of said indebtedness, the rate of interest on both the guaranteed and unguaranteed portions herein shall become fixed at the rate in effect as of the date of default. If the Undersigned shall not be in default in payment when SBA purchases its guaranteed portion, the rate of interest on both the guaranteed and unguaranteed portions shall be fixed at the rate in effect as of the date of purchase by SBA.

Borrower shall provide Holder with written notice of intent to prepay part or all of this loan at least 21 calendar days prior to the prepayment date. A prepayment is any payment made ahead of schedule that exceeds twenty (20%) percent of the then outstanding principal balance before such prepayment. If Borrower makes a prepayment and fails to give at least 21 days advance notice of intent to prepay, then, notwithstanding any other provisions to the contrary in this Note or other document, Borrower shall pay Holder 21 days interest on the unpaid principal as of the date preceding such prepayment.

48

The term "Indebtedness" as used herein shall mean the indebtedness evidenced by this Note, including principal, interest, and expenses, whether contingent, now due or hereafter to become due and whether heretofore or contemporaneously herewith or hereafter contracted. The term "Collateral" as used in this Note shall mean any funds, guaranties, or other property or rights therein of any nature whatsoever or the proceeds thereof which may have been, are, or hereafter may be, hypothecated, directly or indirectly by the undersigned or others, in connection with, or as security for, the indebtedness or any part thereof. The Collateral, and each part thereof, shall secure the Indebtedness and each part thereof. The covenants and conditions set forth or referred to in any and all instruments of hypothecation constituting the Collateral are hereby incorporated in this Note as covenants and conditions of the undersigned with the same force and effect as though such covenants and conditions were fully set forth herein.

The Indebtedness shall immediately become due and payable, without notice or demand, upon the appointment of a receiver or liquidator, whether voluntary or involuntary, for the undersigned or for any of its property, or upon the filing of a petition by or against the undersigned under the provisions of any State insolvency law or under the provisions of the Bankruptcy Reform Act of 1978, as

amended, or upon the mailing by the undersigned of an assignment for the benefits of its creditors. Holder is authorized to declare all or any part of the Indebtedness immediately due and payable upon the happening of any of the following events: (1) Failure to pay any part of the indebtedness when due; (2) nonperformance by the undersigned of any agreement with, or any condition imposed by, Holder or Small Business Administration (hereinafter called "SBA"), with respect to the Indebtedness; (3) Holder's discovery of the undersigned's failure In any application of the undersigned to Holder or SBA to disclose any fact deemed by Holder to be material or of the making therein or in any of the said agreements, or in any affidavit or other documents submitted in connection with said application or the indebtedness, of any misrepresentation by, on behalf of, or for the benefit of the undersigned; (4) the reorganization (other than a reorganization pursuant to any of the provisions of the Bankruptcy Reform Act of 1978, as amended) or merger or consolidation of the undersigned (or the making of any agreement therefor) without the prior written consent of Holder; (5) the undersigned's failure duly to account, to Holder's satisfaction, at such time or times as Holder may require, for any of the Collateral, or proceeds thereof, coming into the control of the undersigned; or (6) the institution of any suit affecting the undersigned deemed by Holder to affect adversely its interest hereunder in the Collateral or otherwise. Holder's failure to exercise its rights under this paragraph shall not constitute a waiver thereof.

Upon the nonpayment of the Indebtedness, or any part thereof, when due, whether by acceleration or otherwise, Holder is empowered to sell, assign, and deliver the whole or any part of the Collateral at public or private sale, without demand, advertisement or notice of the time or place of sale or of any adjournment thereof, which are hereby expressly waived. After deducting all expenses incidental to or arising from such sale or sales, Holder may apply the residue of the proceeds thereof to the payment of the indebtedness, as it shall deem proper, returning the excess, if any, to the undersigned. The undersigned hereby waives all rights of redemption or appraisement whether before or after sale.

Holder is further empowered to collect or cause to be collected or otherwise to be converted into money all or any part of the Collateral, by suit or otherwise, and to surrender, compromise , release, renew, extend, exchange, or substitute any item of the Collateral in transactions with the undersigned or any third party irrespective of any assignment thereof by the undersigned, and without prior notice to or consent of the undersigned or any assignee. Whenever any item of the Collateral shall not be paid when due, or otherwise shall be in default, whether or not the indebtedness, or any part thereof, has become due, Holder shall have the same rights and powers with respect to such items of the Collateral as are granted In this paragraph in case of nonpayment of the Indebtedness, or any part thereof, when due. None of the rights, remedies, privileges, or powers of Holder expressly provided for herein shall be exclusive, but each of them shall be cumulative with and in addition to every other right, remedy, privilege, and power now or hereafter existing in favor of Holder, whether at law or equity, by statute or otherwise.

The undersigned agrees to take all necessary steps to administer, supervise, preserve, and protect the Collateral; and regardless of any action taken by Holder, there shall be no duty upon Holder in this respect. The undersigned shall pay all expenses of any nature, whether incurred in or out of court, and whether incurred before or after this Note shall become due at its maturity date or otherwise, including but not limited to reasonable attorney's fees and costs, which Holder may deem necessary or proper in connection with the satisfaction of the Indebtedness or the administration, supervision, preservation, protection of (including but not limited to, the maintenance of adequate insurance) or the realization upon the Collateral. Holder is authorized to pay at any time and from time to time any or all of such expenses, add the amount of such payment to the amount of the Indebtedness, and charge interest thereon at the rate specified herein with respect to the principal amount of this Note.

The security rights of Holder and its assigns hereunder shall not be impaired by Holder's sale, hypothecation or rehypothecation of any note of the undersigned or any item of the Collateral, or by any indulgence, including but not limited to (a) any renewal, extension, or modification which Holder may grant with respect to the Indebtedness or any part thereof, or (b) any surrender, compromise, release renewal, extension, exchange, or substitution which Holder may grant in respect of the Collateral, or (c) any indulgence granted in respect of any endorser, guarantor, or surety. The purchaser, assignee, transferee, or pledgee of this Note, the Collateral, and guaranty, and any other document (or any of them), sold, assigned, transferred, pledged, or repledged, shall

forthwith become vested with and entitled to exercise all the powers and rights given by this Note and all applications of the undersigned to Holder or SBA, as if said purchaser, assignee, transferee, or pledgee were originally named as Payee in this Note and in said application or applications.

This promissory note is given to secure a loan which SBA is making or in which it is participating and, pursuant to Part 101 of the Rules and Regulations of SBA (13 C.F.R 101.1 (d)), this instrument is to be construed and (when SBA is the Holder or a party in Interest) enforced in accordance with applicable Federal law.

CONFESSION OF JUDGMENT CLAUSE - THE UNDERSIGNED HEREBY AUTHORIZES AND EMPOWERS - ----------
ANY ATTORNEY OR CLERK OF ANY COURT OF RECORD IN THE UNITED STATES OR ELSEWHERE TO APPEAR FOR AND, WITH OR WITHOUT DECLARATION FILED, CONFESS JUDGMENT AGAINST THE UNDERSIGNED IN FAVOR OF THE HOLDER, ASSIGNEE OR SUCCESSOR OF HOLDER OF THE NOTE, AT ANY TIME, FOR THE FULL OR TOTAL AMOUNT OF THIS NOTE, TOGETHER WITH ALL INDEBTEDNESS PROVIDED FOR THEREIN, WITH COSTS OF SUIT AND ATTORNEY'S COMMISSION OF TEN (10) PERCENT FOR COLLECTION; AND THE UNDERSIGNED EXPRESSLY RELEASES ALL ERRORS, WAIVES ALL STAY OF EXECUTION, RIGHTS OF INQUISITION AND EXTENSION UPON ANY LEVY UPON REAL ESTATE AND ALL EXEMPTION OF PROPERTY FROM LEVY AND SALE UPON ANY EXECUTION HEREON; AND THE UNDERSIGNED EXPRESSLY AGREES TO CONDEMNATION AND EXPRESSLY RELINQUISHES ALL RIGHTS TO BENEFITS OR EXEMPTIONS UNDER ANY AND ALL EXEMPTION LAWS NOW IN FORCE OR WHICH MAY HEREAFTER BE ENACTED.

INNOVATIVE MEDICAL SYSTEMS CORP.

By:

- ---------- ----------

Attest Joseph B. Catarious, Jr., CEO

Note. Corporate applicants must execute Note, in corporate name, by duly authorized officer, and seal must be affixed and duly attested; partnership applicants must execute Note in firm name, together with signature of a general partner.

OPEN-END
MORTGAGE
(Participation)

PLP 950-789-3008

This mortgage made and entered into this 28th day of October, 1996, by and between INNOVATIVE MEDICAL SYSTEMS CORP. (hereinafter referred to as mortgagor) and AT&T SMALL BUSINESS LENDING CORPORATION (hereinafter referred to as mortgagee), who maintains an office and place of business at 2 Gatehall Drive, Parsippany, New Jersey 07054.

WITNESSETH, that for the consideration hereinafter stated, receipt of which is hereby acknowledged, the mortgagor does hereby mortgage, sell grant, assign, and convey unto the mortgagee, his successors and assigns, all of the following described property situated and being in the County of Bucks. State of Pennsylvania.

Commonly known as 55 Steam Whistle Drive, Ivyland, Pennsylvania and more particularly described in the attached Exhibit A.

Together with and including all buildings, all fixtures including but not limited to all plumbing, heating, lighting, ventilation, refrigerating, incinerating, air conditioning apparatus, and elevators (the mortgagor hereby declaring that it is intended that the items herein enumerated shall be deemed

to have been permanently installed as part of the realty), and all improvements now or hereafter existing thereon; the hereditaments and appurtenances and all other rights thereunto belonging, or in anywise appertaining, and the reversion and reversions, remainder and remainders, all rights or redemption, and the rents, issues, and profits of the above described property (provided, however, that the mortgagor shall be entitled to the possession of said property and to collect and retain the rents, issues, and profits until default hereunder). To have and to hold the same unto the mortgagee and the successors in interest of the mortgage forever in fee simple or such other estate, if any, as is stated herein.

The mortgagor covenants that he is lawfully seized and possessed of and has the right to sell and convey said property; that the same is free from all encumbrances except as hereinabove recited; and that he hereby binds himself and his successors in interest to warrant and defend the title aforesaid thereto and every part thereof against the claims of all persons whomsoever.

This instrument is given to secure the payment of a guaranty of a promissory note dated of even date in the principal sum of $1,587,500 signed by Joseph B. Catarious, Jr.
in behalf of Innovative Medical Systems Corp.

THIS MORTGAGE SECURES FUTURE ADVANCES.

Said promissory note was given to secure a loan in which the Small Business administration, an agency of the United States of America, has participated. In compliance with section 101.1(d) of the Rules and Regulations of the Small Business Administration [13 C.F.R. 101.1(d)], this instrument is to be construed and enforced in accordance with applicable Federal law.

1. The mortgagor covenants and agrees as follows:

a. He will promptly pay the indebtedness evidenced by said promissory note at the times and in the manner therein provided.

b. He will pay all taxes, assessments, water rates, and other governmental or municipal charges, fines, or imposition, for which provision has not been made hereinbefore, and will promptly deliver the official receipts therefor to the said mortgagee.

c. He will pay such expenses and fees as may be incurred in the protection and maintenance of said property, including the fees of any attorney employed by the mortgagee for the collection of any or all of the indebtedness hereby secured, or foreclosure by mortgagee's sale, or court proceedings, or in any other litigation or proceeding affecting said property. Attorney's fees reasonable incurred in any other way shall be paid by the mortgagor.

d. For better security of the indebtedness hereby secured, upon the request of the mortgagee, its successors or assigns, he shall execute and deliver a supplemental mortgage or mortgages covering any additions, improvements, or betterments made to the property hereinabove described and all property acquired by it after the date hereof (all in form satisfactory to mortgagee). Furthermore, should mortgagor fail to cure any default in the payment of a prior or inferior encumbrance on the property described by this instrument, mortgagor hereby agrees to permit mortgagee to cure such default, but mortgagee is not obligated to do so; and such advances shall become part of the indebtedness secured by this instrument, subject to the same terms and conditions.

e. The rights created by this conveyance shall remain in full force and effect during any postponement or extension of the time of the payment of the indebtedness evidenced by said promissory note or any part thereof secured hereby.

f. He will continuously maintain hazard insurance, of such type or types and in such amounts as the mortgagee may from time to time require on the improvements now or hereafter on said property, and will pay promptly when due any premiums thereof. All insurance shall be carried in companies acceptable to mortgagee and the policies and renewals thereof shall be held by mortgagee and have attached thereto loss payable clauses in favor of and in form acceptable to

the mortgagee. In event of loss, mortgagor will give immediate notice in writing to mortgagee, and mortgagee may make proof of loss if not made promptly by mortgagor, and each insurance company concerned is hereby authorized and directed to make payment for such loss directly to mortgagee instead of to mortgagor and mortgagee jointly, and the insurance proceeds, or any part thereof, may be applied by mortgagee at its option either to the reduction of the indebtedness hereby secured or to the restoration or repair of the property damaged or destroyed. In event of foreclosure of this mortgage, or other transfer of title to said property in extinguishment of the indebtedness secured hereby, all right, title, and interest of the mortgagor in and to any insurance policies then in force shall pass to the purchaser or mortgagee or, at the option of the mortgagee, may be surrendered for a refund.

g. He will keep all buildings and other improvements on said property in good repair and condition; will permit, commit, or suffer no waste, impairment, deterioration of said property or any part thereof; in the event of failure of the mortgagor to keep the buildings on said premises and those erected on said premises, or improvements thereon, in good repair, the mortgagee may make such repairs as in its discretion it may deem necessary for the proper preservation thereof; and the full amount of each and every such payment shall be immediately due and payable; and shall be secured by the lien of this mortgage.

h. He will not voluntarily create or permit to be created against the property subject to this mortgage any lien or liens inferior or superior to the lien of this mortgage without the written consent of the mortgagee; and further, that he will keep and maintain the same free from the claim of all persons supplying labor or materials for construction of any and all buildings or improvements now being erected or to be erected on said premises.

i. He will not rent or assign any part of the rent of said mortgaged property or demolish, or remove, or substantially alter any building without the written consent of the mortgagee.

j. All awards of damages in connection with any condemnation for public use of or injury to any of the property subject to this mortgage are hereby assigned and shall be paid to mortgagee, who may apply the same to payment of the installments last due under said note, and mortgagee is hereby authorized, in the name of the mortgagor, to execute and deliver valid acquittances thereof and to appeal from any such award.

k. The mortgagee shall have the right to inspect the mortgaged premises at any reasonable time.

2. Default in any of the covenants or conditions of this instrument or of the note or loan agreement secured hereby shall terminate the mortgagor's right to possession, use, and enjoyment of the property, at the option of the mortgagee or his assigns (it being agreed that the mortgagor shall have such right until default). Upon any such default, the mortgagee shall become the owner of all of the rents and

profits accruing after default as security for the indebtedness secured hereby, with the right to enter upon said property for the purpose of collection such rents and profits. This instrument shall operate as an assignment of any rentals on said property to that extent.

3. The mortgagor covenants and agrees that if he shall fail to pay said indebtedness or any part thereof when due, or shall fail to perform any covenant or agreement of this instrument or the promissory note secured hereby, the entire indebtedness hereby secured shall immediately become due, payable, and collectible without notice, at the option of the mortgagee or assigns, regardless of maturity, and the mortgagee or his assigns may before or after entry sell said property without appraisement (the mortgagor having waived and assigned to the mortgagee all rights of appraisement):

(i) at judical sale pursuant to the provisions of 28 U.S.C. 2001 (a); or

(ii) at the option of the mortgagee, either by auction or by solicitation of sealed bids, for the highest and best bid complying with the terms of sale and manner of payment specified in the published notice of sale, first giving four weeks' notice of the time, terms, and place of such sale, by advertisement not less than once during each of said four weeks in a newspaper published or

distributed in the county in which said property is situated, all other notice being hereby waived by the mortgagor (and said mortgagee, or any person on behalf of said mortgagee, may bid with the unpaid indebtedness evidenced by said note). Said sale shall be held at or on the property to be sold or at the Federal, county, or city courthouse for the county in which the property is located. The mortgagee is hereby authorized to execute for and on behalf of the mortgagor and to deliver to the purchaser at such sale a sufficient conveyance of said property, which conveyance shall contain recitals as to the happening of the default upon which the execution of the power of sale herein granted depends; and the said mortgagor hereby constitutes and appoints the mortgagee or any agent or attorney of the mortgagee, the agent and attorney in fact of said mortgagor to make such recitals and to execute said conveyance and hereby covenants and agrees that the recitals so made shall be effectual to bar all equity or right of redemption, homestead, dower, and all other exemptions of the mortgagor, all of which are hereby expressly waived and conveyed to the mortgagee; or

(iii) take any other appropriate action pursuant to state or Federal statute either in state or Federal court or otherwise for the disposition of the property.

In the event of a sale as hereinbefore provided, the mortgagor or any persons in possession under the mortgagor shall then become and be tenants holding over and shall forthwith deliver possession to the purchaser at such sale or be summarily dispossessed, in accordance with the provisions of law applicable to tenants holding over. The power and agency hereby granted are coupled with an interest and are irrevocable by death or otherwise, and are granted as cumulative to the remedies for collection of said indebtedness provided by law.

4. The proceeds of any sale of said property in accordance with the preceding paragraphs shall be applied first to pay the costs and expenses of said sale, the expenses incurred by the mortgagee for the purpose of protecting or maintaining said property, and reasonable attorney's fees; secondly, to pay the indebtedness secured hereby; and thirdly, to pay any surplus or excess to the person or persons legally entitled thereto.

5. In the event said property is sold at a judicial foreclosure sale or pursuant to the power of sale hereinabove granted, and the proceeds are not sufficient to pay the total indebtedness secured by this instrument and evidenced by said promissory note, the mortgagee will be entitled to a deficiency judgment for the amount of the deficiency without regard to appraisement.

6. In the event the mortgagor fails to pay and Federal, state or local tax assessment, income tax or other tax lien, charge, fee, or other expense charged against the property the mortgagee is hereby authorized at his option to pay the same. Any sums so paid by the mortgagee shall be added to and become a part of the principal amount of the indebtedness evidence by said note, subject to the same terms and conditions. If the mortgagor shall pay and discharge the indebtedness evidenced by said promissory note, and shall pay such sums and shall discharge all taxes and liens and the costs, fees, and expenses of making, enforcing, and executing this mortgage, then this mortgage shall be canceled and surrendered.

7. The covenants herein contained shall bind and the benefits and advantages shall inure to the respective successors and assigns of the parties hereto. Whenever used, the singular number shall include the plural, the plural the singular, and the use of any gender shall include all genders.

8. No waiver of any covenant herein or of the obligation secured hereby shall at any time thereafter be held to be a waiver of the terms hereof or of the note secured hereby.

9. A judicial decree, order, or judgment holding any provision or portion of this instrument invalid or unenforceable shall not in any way impair or preclude the enforcement of the remaining provisions or portions of this instrument.

10. Any written notice to be issued to the mortgagor pursuant to the provisions of this instrument shall be addressed to the mortgagor at the mortgaged premises and any written notice to be issued to the mortgagee shall be addressed to the mortgagee at 2 Gatehall Drive, Parsippany, New Jersey 07054.

IN WITNESS WHEREOF, the mortgagor has executed this instrument and the mortgagee has accepted delivery of this instrument as of the day and year aforesaid.

INNOVATIVE MEDICAL SYSTEM CORP

By:

Attest:

Executed and delivered in the presence of the following witnesses:

- ---

- ---

(Add Appropriate Acknowledgment)

COMMONWEALTH OF PENNSYLVANIA
COUNTY OF PHILADELPHIA

On this day of , in the year 1996, before me, the undersigned, a Notary
------ -----
Public in and for said County and Sate, personally appeared Joseph B. Catarious, Jr., personally known to me (or proved to be on the basis of satisfactory evidence) to be the persons who executed the within instrument as the CEO of Innovative Medical Systems Corp. as the free act and deed of such corporation for the purposes contained therein.

Notary Public in and for said County and State

My Commission Expires:

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MORTGAGE

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INNOVATIVE MEDICAL SYSTEMS CORP
TO
AT&T SMALL BUSINESS LENDING CORPORATION

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RECORDING DATA

The ADDRESS OF Mortgagee IS 2 Gatehall Drive, Parsippany, NJ 07054

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RETURN TO:

Name: Carolyn Stedronsky
Address: 2 Gatehall Drive
Parsippany, New Jersey 07054

EXHIBIT 21 (a)

SUBSIDIARIES OF OXIS INTERNATIONAL, INC.

As of December 31, 1997, the Company's subsidiaries were as follows:

Name	Jurisdiction of incorporation
OXIS International S.A.	France
OXIS Acquisition Corporation	Delaware
OXIS Isle of Man Limited	Isle of Man
Innovative Medical Systems Corp.	Pennsylvania

EXHIBIT 23(a)

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-64451 on Form S-8 and in Registration Statements Nos. 33-61087, 333-5921, and 333-18041 on Form S-3 of our report dated March 13, 1998 (which expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's ability to continue as a going concern) appearing in this Annual Report on Form 10-K of OXIS International, Inc. for the year ended December 31, 1997.

DELOITTE & TOUCHE LLP
Portland, Oregon

March 20, 1998

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