

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated March 22, 2005

The following information should be read in conjunction with the Corporation's audited financial statements for the period ending December 31, 2004 as well as the related notes, which are prepared in accordance with Canadian generally accepted accounting principles. This Management's Discussion and Analysis ("MD&A") provides a review of the performance of the Corporation for the nine month period ended December 31, 2004. This review was performed by management with information available as of March 22, 2005.

Where "we", "us", "our", "SCT" or the "Corporation" is used, it is referring to Stem Cell Therapeutics Corp. unless otherwise indicated.

All amounts are in Canadian dollars, unless otherwise indicated.

Additional information relating to the Corporation can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Certain information contained in management's discussion and analysis of our financial condition and results of our operations constitute forward looking statements. These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward looking statements.

### **Overview**

Stem Cell Therapeutics Corp. (SCT) is a biotechnology company focused on the development of our technology platform and intellectual property to selectively induce a patient's own stem cells to proliferate in the brain. Our core technology has been demonstrated to increase the number of innate adult stem cells that grow in place when our therapeutic approach is applied to test animals. This fundamental technology will be further developed to create specific disease treatments for stroke, Huntington's disease, Alzheimer's disease and other neurodegenerative conditions. Our collaborators and researchers have used animals to demonstrate re-growth of functional brain cells from existing stem cells using our therapeutic approach. Since these tests were completed, we have identified additional agents that may be used for neurogenesis-promoting from which we have created a combination of agents and termed it NTx<sup>TM</sup>-265. We plan to test NTx<sup>TM</sup>-265 in humans concurrently with our advanced pre-clinical testing program.

As a development stage company, the continuation of the SCT's research and development activity and the commercialization of its stem cell related technologies are dependent on the Corporation's ability to complete its research and development

programs and finance its cash requirements. The value of our intangible assets could become impaired should our research and development activities change significantly or cease.

### **Review of Operations**

Net loss for the nine months ended December 31, 2004 was \$949,865, which amounts to a loss of \$0.08 per Common Share for the period. The loss is reflective of costs associated with intellectual property development and purchase, research contracts with an Alberta based university, option grants and management fees.

### **Purchase of Intellectual Property**

On October 4, 2004 we entered into an agreement with Transition Therapeutics Inc. to purchase the shares of Stem Cell Therapeutics Inc. for an aggregate purchase price of \$3,500,000. The purchase price is payable in installments beginning on closing in the amount of \$325,000, and on the anniversary of closing in each of the following four years in the amount of \$475,000, \$400,000, \$650,000 and \$1,650,000, respectively.

The value of this intellectual property purchase was recorded based on the present value of the purchase price amortized over a 10 year period at 15% as an intellectual property asset. The current and long term portions of the corresponding purchase liability as well as the deemed interest expense was recorded accordingly at the end of December 31, 2004.

The intellectual property portfolio that is held by Stem Cell Therapeutics Inc. complements the technology purchased by SCT from Dr. Weiss and his collaborators as well as broadens the market opportunities that present themselves for SCT to enter. SCT had its first patent issued from the Stem Cell Therapeutics Inc. portfolio, which provides for a method of treating Parkinson's disease, on January 18, 2005.

### **Revenue**

As an early development stage company developing biotechnology related products for the treatment of disease, we have not generated any revenues from product sales to date and do not expect to do so for a number of years. This is primarily due to the long time line that is required to develop drugs that are proven in a clinical setting in humans to be safe and useful for treating a particular disease state. Revenues to date include only interest income generated on our cash balances. For the nine months ending December 31, 2004, interest income accrued and received amounted to \$3,838.

### **Amortization**

Accumulated amortization for property and equipment over the nine months ending December 31, 2004 was \$4,158. This was calculated on a straight line basis over the estimated useful lives of the assets.

Intellectual property assets, such as the intellectual property purchased via the Stem Cell Therapeutics Inc. agreement is amortized over a 10 year time frame using a straight line basis. The accumulated amortization for intellectual property amounted to \$59,638 for the nine months ending December 31, 2004.

### **Research and Development**

Our research and development expenses consist primarily of fees paid to external service providers. We expect our research and development expenses to increase significantly over the next few years as our products enter clinical trials and we continue to advance other research and development programs. As a result of the risks and uncertainties that are discussed in the “Risk Factors” section, we are unable to estimate the specific timing and future costs of our research and development programs.

The Corporation has a contract with an Alberta based university to further develop stem cell related therapies. This contract expired subsequent to the year end on February 13, 2005. For the nine months ended December 31, 2004, the total research and development charge was \$206,038 with respect to the contract with the Alberta based university as well as with a number of contract research organizations in Alberta.

Regarding NTx<sup>TM</sup>-265, our lead product candidate, we plan to continue with our pre-clinical studies in 2005, which we expect to take approximately one year to complete. Concurrently with these advanced pre-clinical studies we plan to begin testing in humans in late 2005. We have spent \$206,038 in research and development up to December 31, 2004 and anticipate requiring \$6 million to \$7 million over the next two years to achieve our development plan.

### **General and Administration**

General and administrative (G&A) expenses, exclusive of salary, for the nine months ended December 31, 2004 were \$121,560, consisting primarily of office lease, exchange and regulatory fees, office supplies, printing and promotion, and travel expenses.

### **Stock options**

Compensation expense was recorded in the amount of \$174,641 for stock options granted to directors and employees. This related to the granting of 4,725,000 stock options at prices ranging from \$0.025 to \$0.25 per share over the nine month period ending December 31, 2004. As of December 31, 2004, 800,000 of these options were exercised yielding \$35,000 to the company.

The following table summarizes the activity of the Corporation's stock option plan as at March 24, 2005

| <b>Date Granted</b> | <b>Strike Price</b> | <b>Number of Options</b> | <b>Number Exercised / Date</b> | <b>Cash received</b> |
|---------------------|---------------------|--------------------------|--------------------------------|----------------------|
| April 2004          | \$0.025             | 600,000                  | 600,000<br>November<br>2004    | \$15,000             |
| June 2004           | \$0.10              | 200,000                  | 200,000<br>November<br>2004    | \$20,000             |
| November 2005       | \$0.25              | 3,925,000                | -                              | -                    |
| February 2005       | \$0.35              | 800,000                  | -                              | -                    |

### **Professional Fees**

Professional fees reflect charges for intellectual property development (i.e. patents) and corporate development with regards to the formation of the Corporation. For the nine months ended December 31, 2004, a \$194,396 charge was expensed for these services which was primarily for intellectual property development and accrued audit services relating to the audit of our financial statements.

### **Management Costs**

Management fees for the nine months ended December 31, 2004 totaled \$117,823. This charge represents consulting and payroll fees to the Corporation's management.

### **Liquidity and Capital Resources**

Our primary capital needs are for funds to support our scientific research and development activities including pre-clinical and clinical trials and capital expenditures for development of facilities and working capital.

The Corporation's specific capital commitments include payment to lease office space which will total \$45,473 from January 1, 2005 until expiry of the lease on December 31, 2005. We will also incur capital expenses pursuant to service agreements for the next five years for a total of \$1,940 through 2010.

The Corporation has raised significant operating capital since its inception. For the nine months ended December 31, 2004, gross proceeds of \$1,460,010 was raised from initial subscribers to the Corporation's capital as well as from the exercise of options. The following table summarizes shares issued for capital by the Corporation and the amount of capital that was received.

|   | Number<br>of shares<br># | 2004<br>\$       |
|---|--------------------------|------------------|
| <b>Common</b>   |                          |                  |
| Formation of Corporation, March 31, 2004,                     | <b>1,000,000</b>         | <b>10</b>        |
| Proceeds from issuance at \$0.025 per share, April 14, 2004   | <b>2,000,000</b>         | <b>50,000</b>    |
| Proceeds from issuance at \$0.10 per share, June 7, 2004      | <b>2,550,000</b>         | <b>255,000</b>   |
| Proceeds from issuance at \$0.15 per share, August 19, 2004   | <b>4,000,000</b>         | <b>600,000</b>   |
| Proceeds from issuance at \$0.25 per share, November 19, 2004 | <b>1,000,000</b>         | <b>250,000</b>   |
| Options exercised, November 21, 2004 (ii)                     | <b>800,000</b>           | <b>35,000</b>    |
| <b>Class B</b>  |                          |                  |
| Proceeds from issuance at \$0.025 per share, April 20, 2004   | <b>10,800,000</b>        | <b>270,000</b>   |
| <b>Total</b>  |                          | <b>1,460,010</b> |

Outstanding shares as of December 31, 2004 totaled 18,986,364 common shares and 6,800,000 class B shares

This capital has provided the Corporation with the resources required to establish the corporate office, further develop intellectual property pursuant to an Alberta based university research contract, as well as provide the initial payment for the purchase of the intellectual property held by Stem Cell Therapeutics Inc. from Transition Therapeutics Inc.

As of December 31, 2004 the working capital (current assets minus current liabilities) for the Corporation was \$205,142.

### **Financing Activities**

Financing activities have included several rounds of capital sourcing and share issuances. These have provided the Corporation with aggregate total gross proceeds of \$1,425,010 from share issuance and \$35,000 from the exercising of options, as of December 31, 2004, for gross proceeds of \$1,460,010.

The Corporation closed its initial public offering on January 6, 2005 and began trading on the TSX-Venture exchange under the symbol SSS. 34,000,000 common shares were issued from treasury at \$0.25 per share. An underwriters' commission of 9% of the aggregate gross proceeds realized from the Offering with expenses netted \$7,640,453 to the company.

Outstanding shares as of March 23, 2005 totalled 53,066,364 common shares and 6,720,000 class B shares.

**The Corporation's ability to continue as a going concern is contingent upon its ability to obtain additional sources of funding to finance future operations. Efforts will be required to obtain these additional funds, but there is no assurance that additional financing will be available on acceptable terms, if at all.**

### **Investing Activities**

The Corporation has invested capital into intellectual property development and patent filing activities and basic corporate office infrastructure.

### **Related Party Transactions**

Pursuant to a sub-lease agreement entered into with LaunchVision Research Inc. (controlled by a director of the Company), the Company incurred rent expense of \$19,530 which is included in general and administration expense. No amount is owing at December 31, 2004.

### **Risks and Uncertainties**

Prospects for companies in the biotechnology industry may generally be regarded as uncertain given the nature of the industry. Accordingly, investments in biotechnology companies should be regarded as highly speculative. The realization of our long-term potential will be dependent upon the successful development and commercialization of products and product candidates currently under development. We can make no assurance that these products and product candidates will be developed or that they will receive regulatory approval. Our new products and product candidates are currently in the research and development stages, the highest risk stages for a company in the biotechnology industry.

We can make no assurance that our research and development programs will result in commercially viable products and product candidates. To achieve profitable operations, we, alone or with others, must successfully develop, launch and market our products and product candidates. To obtain regulatory approvals for the products and product candidates being developed and to achieve commercial success, clinical trials must demonstrate that the products and product candidates are safe for human and/or animal use and that they demonstrate efficacy. Unsatisfactory results obtained from a particular study relating to a research and development program may cause the company or its collaborators to abandon their commitments to that program. We can make no assurance that any future tests, if undertaken, will yield favourable results.

### **Intellectual Property and Proprietary Information**

The Corporation has several patent filings in progress that it has filed as well as others recently acquired from Stem Cell Therapeutics Inc., only one of which has been issued to date. The Corporation's success is dependent upon its ability to obtain these patents; however, there is no guarantee that they will be obtained, and, if obtained, the

Corporation may not be able to successfully defend any subsequent infringements to these patents. The Corporation is currently unaware that it has infringed any existing patents issued to third parties and the Corporation's success will, in part, depend on operating without such infringement. The presence of such patents could severely limit the Corporation's ability to conduct its existing research and/or require financial resources to defend litigation, which may be in excess of the Corporation's ability to raise such funds. Additionally, the Corporation relies on trade secrets, know-how and other proprietary information as well as requiring its employees, consultants, advisors and collaborators to sign confidentiality agreements.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Actual results can differ from those estimates. Significant estimates have been made in the following areas: the useful lives of property and equipment, intangibles and the valuation of stock options. Property and equipment and intangibles are recorded at cost less accumulated amortization.

Non-current assets include intellectual property and property and equipment that are amortized over time periods that are standard and applicable to the industry; for example, intellectual property is amortized over 10 years to reflect the long life represented by issued patents, as well as the long time frame required to bring biotechnology products to the market.

The Corporation, as a research and development company, has no significant revenues other than interest income which is booked on an accrual basis which represents income from cash deposits held by the Corporation in order to develop the products the Corporation has identified as having commercial potential.

Research costs are expensed as they are incurred and development costs that meet specific criteria related to technical, market and financial feasibility are capitalized. All development costs incurred to date have been expensed.

No investment tax credits have been recorded by the Corporation on its financial statements because of the short period of operations and the lack of investment tax credit history to build on and there is no reasonable assurance of realization.

Stock based compensation allows directors, officers, employees and consultants to purchase an eligible number of Common Shares for an exercise price equal to the fair market value of the Corporation's Common Shares set on the date of the grant, as determined by the board of directors. All options granted have been valued using the fair value methodology of the BlackScholes model and expensed in the period in which they vested.