



STEM CELL
THERAPEUTICS

Stem Cell Therapeutics Corp.

Second Quarter 2005 Financial Statements
(Unaudited)

June 30, 2005

Stem Cell Therapeutics Corp.
Unaudited Balance Sheets

As at,

| | June 30, 2005 | December 31, 2004 |
|--|--------------------------|------------------------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash | 7,061,821 | 422,899 |
| Short-term investment | 60,000 | 40,000 |
| Accounts receivable | 23,489 | 14,151 |
| Prepaid expenses | 20,132 | 78,804 |
| | 7,165,442 | 555,854 |
| Property and equipment, net | 94,887 | 45,150 |
| Intangibles, net | 2,250,903 | 2,371,641 |
| | 9,511,232 | 2,972,645 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | 170,100 | 110,402 |
| Current portion of obligation under share purchase agreement | 392,692 | 237,507 |
| Current portion of capital lease obligation | 9,760 | 2,803 |
| | 572,552 | 350,712 |
| Long Term Obligations | | |
| Obligation under share purchase agreement | 1,924,221 | 1,924,221 |
| Capital lease obligation | 13,682 | 2,343 |
| Shareholders' equity | | |
| Share capital [note 4] | 8,984,393 | 1,490,593 |
| Contributed surplus | 287,782 | 154,641 |
| Deficit | (2,271,398) | (949,865) |
| Total shareholders' equity | 7,000,777 | 695,369 |
| | 9,511,232 | 2,972,645 |

See accompanying notes

On behalf of the Board:

"Joseph Tucker"
 Director

"Don McCaffrey"
 Director

Stem Cell Therapeutics Corp.
Unaudited Statements of Loss and Deficit

For the period ended,

| | Three Months Ended June 30 2005 | Three Months Ended June 30 2004 | Six Months Ended June 30 2005 | Six Months Ended June 30 2004 | Cumulative from Inception on March 31, 2004 to June 30, 2005 |
|---|--|--|--|--|---|
| | \$ | \$ | \$ | \$ | \$ |
| OPERATING EXPENSES | | | | | |
| Research and development costs <i>[note 3]</i> | 124,560 | 42,000 | 175,968 | 42,000 | 382,007 |
| Professional fees | 116,066 | - | 229,427 | - | 423,823 |
| Management and consulting fees | 97,031 | 7,056 | 189,404 | 7,056 | 307,227 |
| General and administration | 207,063 | 49,565 | 377,250 | 49,565 | 498,810 |
| Stock option expense | 70,622 | 20,000 | 133,142 | 20,000 | 307,783 |
| Deemed interest expense on obligation under share purchase agreement | 78,021 | - | 155,185 | - | 230,634 |
| Amortization of property and equipment | 7,620 | - | 12,257 | - | 16,415 |
| Amortization of intangibles | 60,782 | 500 | 120,738 | 500 | 180,376 |
| Total operating expenses | 761,765 | 119,121 | 1,393,371 | 119,121 | 2,347,075 |
| Interest income | 35,917 | - | 71,838 | - | 75,677 |
| Net loss for the period | 725,848 | 119,121 | 1,321,533 | 119,121 | 2,271,398 |
| Deficit beginning of period | 1,545,550 | - | 949,865 | - | - |
| Deficit, end of period | 2,271,398 | 119,121 | 2,271,398 | 119,121 | 2,271,398 |
| Basic and diluted loss per share | 0.01 | 0.01 | 0.02 | 0.01 | 0.06 |

See accompanying notes

Stem Cell Therapeutics Corp.
Unaudited Statements of Cash Flows

For the period ended,

| | Three Months Ended June 30 2005 | Three Months Ended June 30 2004 | Six Months Ended June 30 2005 | Six Months Ended June 30 2004 | Cumulative from Inception on March 31, 2004 to June 30, 2005 |
|---|---|---|---|---|--|
| | \$ | \$ | \$ | \$ | \$ |
| OPERATING ACTIVITIES | | | | | |
| Net loss for the period | (725,848) | (119,121) | (1,321,533) | (119,121) | (2,271,398) |
| <u>Add items not involving cash</u> | | | | | |
| Stock option expense | 70,622 | 20,000 | 133,142 | 20,000 | 307,783 |
| Deemed interest expense on obligation | 78,021 | - | 155,185 | - | 230,634 |
| Amortization of property and equipment | 7,620 | | 12,257 | | 16,415 |
| Amortization of intangibles | 60,782 | 500 | 120,738 | 500 | 180,376 |
| | (508,803) | (98,621) | (900,211) | (98,621) | (1,536,190) |
| Changes in non-cash working capital items | | | | | |
| Accounts receivable | 32,628 | (1,770) | (9,338) | (1,770) | (23,489) |
| Prepaid expenses | (2,500) | - | 58,672 | - | (20,132) |
| Accounts payable and accrued liabilities | (12,282) | 47,528 | 59,698 | 47,528 | 170,100 |
| Cash used in operating activities | (490,957) | (52,863) | (791,179) | (52,863) | (1,409,711) |
| INVESTING ACTIVITIES | | | | | |
| Acquisition of property and equipment | (45,994) | - | (61,995) | - | (111,303) |
| Acquisition of Intangibles | - | (2,000) | - | (2,000) | (327,000) |
| Short Term Investment | (20,000) | - | (20,000) | - | (60,000) |
| Cash used in investing activities | (65,994) | (2,000) | (81,995) | (2,000) | (498,303) |
| FINANCING ACTIVITIES | | | | | |
| Net increase (decrease) in capital lease obligation | 18,982 | - | 18,296 | - | 23,442 |
| Issuance of share capital, net of share issue | - | 573,228 | 7,493,800 | 573,228 | 8,946,393 |
| Shareholder loan | | 6,722 | | 6,722 | |
| Net cash provided by financing activities | 18,982 | 579,950 | 7,512,096 | 579,950 | 8,969,835 |
| Net increase (decrease) in cash during | (537,969) | 525,087 | 6,638,922 | 525,087 | 7,061,821 |
| Cash, beginning of period | 7,599,790 | - | 422,899 | - | - |
| Cash, end of period | 7,061,821 | 525,087 | 7,061,821 | 525,087 | 7,061,821 |

1. DESCRIPTION OF BUSINESS

Stem Cell Therapeutics Corp. (the "Company") was incorporated under the laws of Alberta on March 31, 2004 with nominal share capital. On October 19, 2004, the Company changed its name from Neurogenesis Biotech Corp. to Stem Cell Therapeutics Corp. The Company was created to further develop and commercialize stem cell related technologies acquired from an Alberta based university. To date, the Company has not earned product revenue and is considered to be in the development stage.

The continuation of the Company's research and development activity and the commercialization of its stem cell related technologies is dependent on the Company's ability to complete its research and development programs, achieve future profitable operations and finance its cash requirements. The outcome of these matters cannot be predicted at this time. The value of the Company's intangible assets could become impaired should their research and development activities change significantly or cease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim financial statements of Stem Cell Therapeutics Corp. have been prepared in accordance with Canadian generally accepted accounting principles, following the same accounting policies as the annual financial statements of the Company for the period ended December 31, 2004. The disclosures included below are incremental to those included in the annual financial statements. The unaudited interim financial statements should be read in conjunction with the Company's annual financial statements and notes thereto for the nine-month period ended December 31, 2004.

3. RESEARCH AND DEVELOPMENT PROJECTS

The Company is involved in the research and development of therapeutics involved in the stimulation of stem cells for the treatment of neurological diseases. All research and development costs incurred to date have been expensed. No revenue has been earned from commercialization of the Company's technology.

4. SHARE CAPITAL

[a] Authorized

The authorized share capital of the Company consists of an unlimited number of common shares, Class B shares and First Preferred shares, in each case without nominal or par value. Common shares are voting, and may receive dividends as declared at the discretion of the directors. Class B shares are non-voting and convertible to common shares at the holder's discretion, on a one-for-one basis. Upon dissolution or wind-up of the Company, Class B shares participate ratably with the Common shares in the distribution of the Company's assets.

[b] Issued and outstanding

| | Number of shares | |
|--|-----------------------------|------------------|
| | # | \$ |
| Common | | |
| Formation of Company, March 31, 2004 | 1,000,000 | 10 |
| Acquisition of intellectual property, April 1, 2004 (i) | 3,636,364 | 18,000 |
| Proceeds from issuance at \$0.025 per share, April 14, 2004 | 2,000,000 | 50,000 |
| Proceeds from issuance at \$0.10 per share, June 7, 2004 | 2,550,000 | 255,000 |
| Proceeds from issuance at \$0.15 per share, August 19, 2004 | 4,000,000 | 600,000 |
| Proceeds from issuance at \$0.25 per share, November 19, 2004 | 1,000,000 | 250,000 |
| Options exercised, November 21, 2004 (ii) | 800,000 | 55,000 |
| Conversion of Class B to common, November 19, 2004 (iii) | 4,000,000 | 100,000 |
| Financing Costs | - | (7,417) |
| Balance, December 31, 2004 | 18,986,364 | 1,320,593 |
| Proceeds from initial public offering at (\$0.25 per share), January 6, 2005 | 34,000,000 | 8,500,000 |
| Conversion of Class B to common, January 10, 2005(iv) | 80,000 | 2,000 |
| Conversion of Class B to common, April 1, 2005 (v) | 120,000 | 3,000 |
| Financing Costs | - | (1,006,200) |
| Balance, June 30, 2005 | 53,186,364 | 8,819,393 |
| Class B | | |
| Proceeds from issuance at \$0.025 per share, April 20, 2004 | 10,800,000 | 270,000 |
| Conversion of Class B to common, November 19, 2004 (iii) | (4,000,000) | (100,000) |
| Balance, December 31, 2004 | 6,800,000 | 170,000 |
| Conversion of Class B to common, January 10, 2005 (iv) | (80,000) | (2,000) |
| Conversion of Class B to common, April 1, 2005 (v) | (120,000) | (3,000) |
| Balance, June 30, 2005 | 6,600,000 | 165,000 |
| Share Capital, June 30, 2005 | 59,786,364 | 8,984,393 |

(i) On April 1, 2004 3,636,364 Common shares were issued for the acquisition of intellectual property. The value of the shares was based on the fair value of the intellectual property acquired, \$18,000.

(ii) On November 21, 2004, 600,000 options were exercised at a price of \$0.025 and 200,000 options were exercised at a price of \$0.10. In addition, contributed surplus of \$20,000 was reclassified to share capital upon exercise of the options.

(iii) On November 19, 2004, 4,000,000 Class B shares were converted to 4,000,000 Common shares on a one to one basis.

(iv) On January 10, 2005 80,000 Class B shares were converted to 80,000 Common shares on a one to one basis.

(v) On April 1, 2005 120,000 Class B shares were converted to 120,000 Common shares on a one to one basis.

[c]Employee stock options

The following table summarizes the activity of the Company's stock option plan as at June 30, 2005:

| | June 30, 2005 | |
|--|------------------------------|--|
| | Number of Options | Weighted- average exercise price \$ |
| Outstanding, January 1, 2005 | 3,925,000 | 0.25 |
| Granted | 1,050,000 | 0.33 |
| Exercised | — | — |
| Cancelled | — | — |
| Outstanding, end of period | 4,975,000 | 0.27 |
| Options exercisable at period end | 1,458,333 | 0.26 |

The fair value of options granted to employees and directors of the Company during the period ended June 30, 2005 was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions:

| | |
|-------------------------|------|
| Risk-free interest rate | 5% |
| Volatility | 120% |
| Dividend yield | 0% |

5. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period.

6. COMMITMENTS

Research contracts

Future expected payments under a research contract with an Alberta based university, which was renewed for an additional year on May 1, 2005, are as follows:

| | \$ |
|------|----------------|
| 2005 | 84,000 |
| 2006 | 56,000 |
| | <u>140,000</u> |

Future expected payments under a research contract with a contract research organization in the United States, are as follows:

| | \$ US |
|------|----------------|
| 2005 | 143,678 |
| | <u>143,678</u> |